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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

BRIEF OF APPELLANT MAGNA FORCE, INC.

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TABLE OF CONTENTS

I.	INTRODUCTION AND SUMMARY OF ARGUMENT	1
II.	ASSIGNMENTS OF ERROR	4
III.	STATEMENT OF ISSUES	4
IV.	STATEMENT OF CASE	5
	A. Factual Background.	5
	1. Parties	5
	2. License Agreement (1999).....	6
	3. Patent Assignment Agreement (2010).....	7
	4. Dispute over assignment of License Agreement.....	8
	B. Procedural History.	9
	1. Order compelling arbitration of parties' dispute over assignment of License Agreement.....	9
	2. Claims and counterclaims in arbitration.	9
	3. Interim arbitration award.	11
	4. Arbitrator's Memorandum Opinion on Motion to Finalize Award.....	12
	5. Arbitrator's Memorandum Opinion on Motion For Clarification.....	13
	6. Final Arbitration Award.....	14
	7. Confirmation proceedings.....	15
	8. Federal court action regarding Patent Assignment Agreement.....	16
V.	ARGUMENT	16
	A. Standard of Review.....	16
	B. This Court Should Reverse The Trial Court's Judgment Confirming The Arbitration Award.	17

1.	The arbitrator exceeded his authority under Magna Force’s License Agreement with MDC by voiding the separate Patent Assignment Agreement with Synergy.	17
a.	The arbitrator exceeded his authority under the contract provision limiting arbitration to disputes related the License Agreement itself.	19
b.	Magna Force did not consent to expand the arbitrator’s jurisdiction to cover the entire Patent Assignment Agreement.....	23
2.	The arbitrator also exceeded his powers by refusing to consider Magna Force’s Counterclaim.....	25
3.	The arbitrator’s errors appear on the face of the Award.	27
C.	The Court Should Direct That A New Arbitrator Consider The Parties’ Claims.	29
D.	The Trial Court Should Have Awarded Attorney Fees and Costs Incurred in the Confirmation Action to Magna Force, Not to MDC.....	30
1.	The trial court erred in awarding attorney fees and costs to MDC under the fee-shifting provision of the License Agreement.	30
2.	The trial court erred in failing to award Magna Force its attorney fees and costs incurred in the confirmation proceedings.....	31
E.	The Court Should Award Magna Force Its Attorney Fees and Costs on Appeal.	31
VI.	CONCLUSION.....	32

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>ACF Prop. Mgmt., Inc. v. Chaussee</i> , 69 Wn. App. 913, 850 P.2d 1387, <i>rev. denied</i> 122 Wn.2d 1019, 863 P.2d 1353 (1993).....	17, 18, 25
<i>Agnew v. Lacey Co-Ply</i> , 33 Wn. App. 283, 654 P.2d 712 (1982), <i>review denied</i> , 99 Wn.2d 1006 (1983)	29
<i>Anderson v. Farmers Ins. Co.</i> , 83 Wn. App. 725, 923 P.2d 713 (1996).....	18, 32
<i>Barnes v. Spurch</i> , 121 Wash. 338, 209 P. 513 (1922).....	22
<i>Boehringer Ingelheim Vetmedica, Inc. v. Merial, Ltd.</i> , No. 3:09-CV-212, 2010 U.S. Dist. LEXIS 6819 (D. Conn. Jan. 14, 2010)	22
<i>Boyd v. Davis</i> , 75 Wn. App. 23, 876 P.2d 478 (1994), <i>aff'd</i> 127 Wn.2d 256, 867 P.2d 1239 (1995).....	31
<i>Broom v. Morgan Stanley DW Inc.</i> , 169 Wn.2d 231, 236 P.3d 182 (2010).....	19, 29
<i>Butler v. Craft Eng. Const. Co., Inc.</i> , 67 Wn. App. 684, 843 P.2d 1071 (1992).....	22
<i>Capitol Life Ins. Co. v. Gallagher</i> , 839 F. Supp. 767 (D. Colo 1993).....	21
<i>City of Yakima v. Yakima Police Patrolmans Ass'n</i> , 148 Wn. App. 186, 199 P.3d 484 (2009).....	18
<i>Contrast Boyd v. Davis</i> , 127 Wn.2d 256, 897 P.2d 1239 (1995).....	22

<i>Cummings v. Budget Tank Removal & Env. Servs., LLC</i> , 163 Wn. App. 379, 260 P.3d 220 (2011).....	28
<i>In Re Cybernetic Servs., Inc.</i> , 252 F.3d 1039 (9th Cir. 2001)	22
<i>Davis v. General Dynamics Land Sys.</i> , 152 Wn. App. 715, 217 P.3d 1191 (2009).....	21
<i>Federated Servs. Ins. Co. v. Norberg</i> , 101 Wn. App. 119, 4 P.3d 844 (2000).....	19, 27, 28
<i>Fid. Fed. Bank, FSB v. Durga Ma Corp.</i> , 386 F.3d 1306 (9th Cir. 2004)	16
<i>Godfrey v. Hartford Cas. Ins. Co.</i> , 142 Wn.2d 885, 16 P.3d 617 (2001).....	18
<i>Harris v. Grange Ins. Ass'n</i> , 73 Wn. App. 195, 868 P.2d 201 (1994).....	29
<i>International Ambassador Programs v. Archexpo</i> , 68 F.3d 337 (9th Cir. 1995)	22
<i>Kamaya Co. v. Am. Prop. Consultants, Ltd.</i> , 91 Wn. App. 703, 959 P.2d 1140 (1998), review denied, 137 Wn.2d 1012 (1999).....	17, 25
<i>Kennewick Educ. Ass'n v. Kennewick Sch. Dist. No. 17</i> , 35 Wn. App. 280, 666 P.2d 928 (1983).....	19
<i>Lindon Commodities, Inc. v. Bambino Bean Co.</i> , 57 Wn. App. 813, 790 P.2d 228 (1990).....	19
<i>Martin v. Johnson</i> , 141 Wn. App. 611, 170 P.3d 1198 (2007).....	31
<i>McFreeze Corp. v. State, Dep't of Revenue</i> , 102 Wn. App. 196, 6 P.3d 1187 (2000).....	30
<i>McKee v. AT & T Corp.</i> , 164 Wn.2d 372, 191 P.3d 845 (2008).....	17

<i>ML Park Place Corp. v. Hedreen</i> , 71 Wn. App. 727, 862 P.2d 602 (1993).....	27
<i>Nelson v. Westport Shipyard, Inc.</i> , 140 Wn. App. 102, 163 P.3d 807 (2007).....	21
<i>Price v. Farmers Ins. Co. of Wash.</i> , 133 Wn.2d 490, 946 P.2d 388 (1997).....	26, 29
<i>Rimov v. Schultz</i> , 162 Wn. App. 274, 253 P.3d 462, <i>rev. denied</i> 172 Wn.2d 1026, 268 P.3d 225 (2011).....	18, 25
<i>Robbins v. Hunts Food & Indus., Inc.</i> , 64 Wn.2d 289, 391 P.2d 713 (1964).....	26
<i>Roundup Tavern v. Pardini</i> , 68 Wn.2d 513, 413 P.2d 820 (1966).....	26
<i>Satomi Owners Ass'n v. Satomi</i> , LLC, 167 Wn.2d 781, 225 P.3d 213 (2009)	16
<i>Teufel Constr. Co. v. Am. Arbitration Ass'n</i> , 3 Wn. App. 24, 472 P.2d 572 (1970).....	18
<i>Tradewell Grp., Inc. v. Mavis</i> , 71 Wn. App. 120, 857 P.2d 1053 (1993).....	17
<i>Weiss v. Lonquist</i> , 153 Wn. App. 502, 224 P.3d 787 (2009).....	20
<i>Westmark Properties, Inc. v. McGuire</i> , 53 Wn. App. 400, 766 P.2d 1146 (1989).....	27
<i>Woodall v. Avalon Care Ctr.-Fed. Way, LLC</i> , 155 Wn. App. 919, 231 P.3d 1252 (2010).....	19
STATUTES	
RCW 7.04A.100.....	21
RCW 7.04A.200(1)(b)	13

RCW 7.04A.220.....	15
RCW 7.04A.220(3).....	29
RCW 7.04A.222(1)(d).....	29
RCW 7.04A.230.....	15
RCW 7.04A.230(c).....	27
RCW 7.04A.230(d).....	passim
RULES	
RAP 18.1.....	31
RAP 18.1(d) and (f).....	32

I. INTRODUCTION AND SUMMARY OF ARGUMENT

Arbitrators derive their authority from the parties' agreement. They must adjudicate *only* those claims covered by the arbitration agreement, and they must resolve *all* of the arbitrable claims submitted to them. In this dispute over the assignment of a patent license, the arbitrator violated both of these fundamental limits on his agreed-upon authority. The arbitrator's errors of law appear on the face of the Arbitration Award. Because the arbitrator exceeded his powers, the trial court erred by confirming the arbitrator's decision rather than vacating the Award under RCW 7.04A.230(d). This Court should reverse the judgment below, and remand for rehearing before a new arbitrator.

Appellant Magna Force, Inc. ("Magna Force") is a leader in developing magnet technologies for coupling, transportation, and other uses. This appeal involves the arbitration of disputes relating to two separate Magna Force contracts. The first is a June 10, 1999, *License Agreement* with Respondent MagnaDrive Corporation ("MDC"), granting MDC an exclusive license to use one type of patented magnetic coupling technology, and a nonexclusive license to use another type of Magna Force's patented technologies. The License Agreement includes a narrow arbitration clause requiring arbitration of disputes "between the Parties

relating to the interpretation, construction, application or requirements of *this Agreement*.” CP 99 (emphasis added).

Over a decade later, Magna Force entered into a separate *Patent Assignment Agreement* with Synergy GreenTech Corporation (“Synergy”). MDC is not a party to the Patent Assignment Agreement. Under this contract, Magna Force assigned to Synergy over 150 patents together with all licenses associated with the transferred patents, including the License Agreement with MDC. The Patent Assignment Agreement does *not* authorize arbitration of any disputes.

MDC objected to Magna Force’s assignment of the License Agreement to Synergy, and successfully obtained an order from the Superior Court compelling arbitration to determine whether Magna Force had validly “assigned the License Agreement to Synergy.” CP 129. Magna Force counterclaimed, seeking a declaration that MDC “has no reasonable basis for withholding consent to the assignment” of the License Agreement. CP 113.

After the arbitration hearing, the arbitrator determined that Magna Force had not complied with the contractual procedure for assigning the License Agreement. CP 417. But at MDC’s urging, and over Magna Force’s objection, the arbitrator in his Final Arbitration Award then purported to also void in its entirety the separate Patent Assignment

Agreement between Magna Force and Synergy. CP 376. The arbitrator refused to consider Magna Force's counterclaim, erroneously stating that issues related to "the reasonableness of withholding consent were not presented in the arbitration and were not part of the dispute resolution procedures." CP 251.

This Court should reverse the trial court's judgment confirming the Arbitration Award for the following separate and independent reasons, each appearing on the face of the Award:

First, the arbitrator exceeded his authority under the License Agreement with MDC by invalidating the separate Patent Assignment Agreement. The arbitrator *lacked jurisdiction* to resolve disputes related to the Patent Assignment Agreement, and thus committed facial error by purporting to determine the rights of parties to a separate contract, executed years after the License Agreement, that covers different intellectual property interests, lacks any agreement to arbitrate, and was not the subject of MDC's motion to compel arbitration.

Second, the arbitrator facially erred by *failing to consider and make an award* on Magna Force's counterclaim, which was in fact presented in the arbitration.

This Court should reverse the judgment below, including its award of attorney fees, should remand for rehearing before a new arbitrator, and

should award Magna Force its contractual attorney fees expenses incurred in the confirmation proceedings and on appeal.

II. ASSIGNMENTS OF ERROR

1. The trial court erred in entering its August 6, 2012 Order Confirming Arbitration Award and Denying Magna Force's Motion to Vacate Arbitration Award. (Sub. no. 19, CP 53-55).
2. The trial court erred in entering its September 13, 2012 Order Granting MDC's Motion for Attorney's Fees. (Sub. no. 39, CP 438-40)
3. The trial court erred in entering its December 28, 2012 Final Judgment On Arbitration Award. (Sub. no. 45, CP 166-70).

III. STATEMENT OF ISSUES

Exceeding Authority By Awarding Improper Relief

1. Did the arbitrator exceed his authority under the License Agreement by invalidating in its entirety the separate Patent Assignment Agreement between Magna Force and Synergy?

Exceeding Authority By Failing To Consider Arbitrable Claim

2. Did the arbitrator exceed his authority by refusing to reach the merits of Magna Force's counterclaim?

Relief Requested

3. Should the Arbitration Award be vacated?

4. Should the Court order rehearing before a new arbitrator?

Attorney Fees

5. Did the trial court err in awarding MDC attorney fees and expenses incurred in the confirmation proceedings?

6. Is Magna Force entitled to its attorney fees incurred in the confirmation proceedings?

7. Is Magna Force entitled to an award of attorney fees on appeal?

IV. STATEMENT OF CASE

A. Factual Background.

1. Parties.

Magna Force is a Washington corporation based in Port Angeles, CP 328. Magna Force's president, Karl J. Lamb, has invented multiple technologies that transfer magnetic force across an air gap to replace a physical connection between motor and load. These include adjustable speed coupling systems ("ASCS") used to make adjustable speed drives, and fixed gap coupling ("FGC") involving couplings that operate at a constant torque. *Id.* Prior to its agreement with Synergy, Magna Force owned the United States and foreign patents covering both the ASCS and FGC technologies. CP 327-28.

MDC is a Washington corporation with an office in Woodinville.

CP 327. MDC markets over 65 ASCS products and over 100 FCG products. CP 328. MDC is now majority owned by a Chinese corporation. CP 257.

Synergy is a California corporation formed in August 2010. CP 258. Synergy is part of the CIMIC Group, a group of companies headquartered in Shanghai, China. The CIMIC Group formed Synergy for the purpose of distributing CIMIC products in the United States and to obtain and market Magna Force's patents. CP 257.

2. License Agreement (1999).

Magna Force and MDC are parties to a contract dated June 10, 1999. Under the License Agreement, Magna Force granted MDC an exclusive license to use ASCS technology, and a nonexclusive license to use FCG technology. CP 81.

Section 14.5 of the License Agreement imposes several limitations on the parties' ability to "assign this Agreement, the MDC License or any of its rights, title or interests under this Agreement," as well as on a party's ability to block a proposed assignment. CP 109. Under this provision, MDC gave its blanket advance consent to certain assignments: beginning in 2001, Magna Force was free to assign the License Agreement to any buyer whose principal place of business is located in the United States,

Canada, or Europe. CP 104. The buyer must assume all of Magna Force's obligations under the License Agreement. *Id.* Any assignment of the License Agreement to a business located outside those areas requires MDC's consent, but that consent "shall not be unreasonably withheld." *Id.*

Section 12 of the License Agreement includes a narrow arbitration clause requiring arbitration only of disputes "between the Parties relating to the interpretation, construction, application or requirements of *this Agreement.*" CP 99 (emphasis added). Under the License Agreement, "[a]ny other dispute between the Parties under this Agreement may be submitted to arbitration" only "upon agreement of the Parties." CP 100.

3. Patent Assignment Agreement (2010).

In Summer 2010, MDC negotiated with representatives of the CIMIC group about a potential assignment of MDC's rights as licensee under the License Agreement. CP 283. During these negotiations, MDC took the position that the License Agreement's advance consent provision would be satisfied if the purchaser set up a U.S. subsidiary corporation to be the assignee. *Id.*

In August 2010, after negotiations with MDC proved unsuccessful, representatives of a CIMIC group company traveled to Port Angeles to negotiate the purchase from Magna Force of various patents and associated licenses. CP 257. Magna Force and Synergy ultimately entered into the

Patent Assignment Agreement dated August 10, 2010, under which Magna Force sold a portion of its patent portfolio and assigned to Synergy its associated rights as licensor, including the License Agreement. CP 228. The Patent Assignment Agreement does not contain an arbitration provision, and does not authorize arbitration of disputes arising from the Patent Assignment Agreement or relating to its terms.

MDC was informed that Magna Force was in the process of assigning the License Agreement to Synergy. CP 334. Magna Force's assignment of both the patents and the License Agreement became effective on September 20, 2010. *Id.*

4. Dispute over assignment of License Agreement.

Soon after the assignment of the License Agreement to Synergy, disputes arose between MDC and Synergy. CP 258. On October 5, 2010, Synergy as assignee notified MDC that it was in material breach of the License Agreement and that Synergy intended to terminate the License Agreement if the breaches were not cured within 60 days. Synergy further requested an audit of MDC's books and records under the License Agreement. CP 258-59. On October 8, 2010, MDC informed the parties that it did not consent to the assignment of the License Agreement to Synergy, and refused to provide the information requested by Synergy. CP 259.

B. Procedural History.

1. Order compelling arbitration of parties' dispute over assignment of License Agreement.

On November 10, 2010, MDC filed a petition in King County Superior Court invoking the License Agreement's arbitration provision and asking the court to compel arbitration of the parties' dispute over Magna Force's assignment of the License Agreement to Synergy. KCSC Case No. 10-2-39386-2 at Doc. Sub. # 1. On November 30, 2010, Judge Laura Inveen ordered Magna Force, Synergy, and MDC to arbitrate whether Magna Force had validly "assigned the License Agreement to Synergy." CP 129.

The petition demanding arbitration and the order compelling arbitration do *not* reference the Patent Assignment Agreement, the assignment of the MDC patents to Synergy, nor any term of the Patent Assignment Agreement other than the assignment of the License Agreement. *See* CP 129-32. On the contrary, MDC's representatives did not even become aware of the Patent Assignment Agreement or its specific terms until months after the arbitration had commenced. CP 335.

2. Claims and counterclaims in arbitration.

On March 18, 2011, MDC filed a Petition for Arbitration seeking a declaration that the assignment of the License Agreement from Magna Force to Synergy was invalid. In the arbitration, MDC contended the

assignment did not comply with the advance consent provision contained in Section 14.5 of the License Agreement, CP 104, because it did not satisfy three contractual requirements:

- (1) The assignee must be “assigned the License Agreement itself”;
- (2) The assignee must “assume or otherwise be bound by all of the assignor’s obligations and liabilities under the License Agreement”; and
- (3) The “assignee’s principal place of business” was “in the United States, Canada, or Europe.

CP 322-23 (*italics omitted*). MDC argued that Synergy’s principal place of business was in China. CP 351.

On April 6, 2011, Magna Force filed its counterclaim, seeking a declaration that – irrespective of Magna Force’s compliance or noncompliance with the Section 14.5 advance consent requirements – “MagnaDrive has no reasonable basis for withholding consent to the assignment.” CP 246. Arbitrator Terry Lukens held an arbitration hearing on September 27-28, 2011. Magna Force presented argument and evidence that Synergy was assigned the License Agreement as of September 20, 2010, and that Synergy’s principal place of business was in California, not China. CP 260-65. Magna Force also pursued its counterclaim, contending that MDC was unreasonably withholding consent to any assignment of the License Agreement to Synergy. CP 267. Synergy

participated in this arbitration because the License Agreement defines the assignee of the License Agreement as a “Party” to that agreement. CP 76.

3. Interim arbitration award.

The arbitrator issued his Findings of Fact, Conclusions of Law, and Interim Award (“Interim Award”) on November 7, 2011. CP 407-18.

According to the arbitrator, three issues were presented in the liability phase of the arbitration:

- “(1) Does the Assignment Agreement constitute an actual assignment of the License Agreement?
- (2) Under the Assignment Agreement was Synergy required to assume all of the obligations of Magna Force under the License Agreement?
- (3) Is the principal place of business of Synergy located in the United States?”

CP 409. These are the same three prongs that MDC had identified as the requirements for an assignment of the License Agreement based on the blanket advance consent provisions found in Section 14.5 of the License Agreement. *See* CP 322-23.

The arbitrator rejected MDC’s position on the first two prongs but agreed with MDC on the third, determining that Synergy’s principal place of business was in China. CP 416. The arbitrator concluded the “assignment of the License Agreement from Magna Force to Synergy as contained in the Assignment Agreement violates the third prong of the

advance consent provisions of Paragraph 14.5 of the License Agreement.” CP 417. The arbitrator therefore concluded that “the purported assignment reflected in the Assignment Agreement is void.” *Id.* The arbitrator’s Findings of Fact and Conclusions of Law each were limited to these three prongs. CP 409-16. The Interim Award did *not* address any of the issues presented by Magna Force’s counterclaim. *Id.*

4. Arbitrator’s Memorandum Opinion on Motion to Finalize Award.

MDC moved to “finalize” the Interim Award by asking the arbitrator to expand his original ruling invalidating the assignment of the License Agreement to also invalidate all other terms of the Patent Assignment Agreement, including the assignment of the Magna Force patents. CP 380. Magna Force and Synergy opposed the motion, contending that the validity of the Patent Assignment Agreement and of the assignment of the patents themselves was not before the arbitrator. *Id.*

In its February 29, 2012 Memorandum Opinion on MDC’s motion, the arbitrator acknowledged that the “arbitration involved the validity of the assignment of the License Agreement and whether the three criteria of Paragraph 14.5 had been satisfied.” *Id.* Nevertheless, the arbitrator ruled – without identifying any legal basis for his decision – that the arbitration clause in the License Agreement permitted him to resolve disputes related

to the separate Patent Assignment Agreement, and “the grant of authority to the Arbitrator to determine the validity of the [Patent] Assignment Agreement included all parts of that agreement.” *Id.*

The Interim Arbitration Award had not addressed Magna Force’s counterclaim seeking a determination that MDC has unreasonably withheld consent to any assignment of the License Agreement to Synergy. CP 409-16. Nevertheless, in response to the parties’ briefing regarding the status of the counterclaim, the arbitrator stated only that “[i]n light of the determinations made *in the Award*, there is no basis on which the counterclaims may proceed. They should be dismissed.” CP 381 (emphasis added). The Memorandum Opinion on Motion to Finalize Award is incorporated as part of the final Arbitration Award. CP 376.

5. Arbitrator’s Memorandum Opinion on Motion For Clarification.

Magna Force promptly moved for clarification of the arbitrator’s treatment of its counterclaim. *See* RCW 7.04A.200(1)(b) (a party may request that an arbitrator correct an award when he or she “has not made a final and definite award upon a claim submitted by the parties to the arbitration proceedings”). On March 30, 2012, the arbitrator issued an Order On Respondent Magna Force Inc.’s Request for Clarification and Consideration of New Evidence. CP 249-52. Notwithstanding the

pendency of Magna Force's counterclaim, CP 246, 267, the arbitrator erroneously characterized as a "new claim" Magna Force's contention "that it was not reasonable to withhold consent to the transfer to a Chinese entity in light of MagnaDrive's significant Chinese contacts." CP 250.

According to the arbitrator, "Magna Force proceeded (and litigated) on the basis that the *blanket consent applied* since Synergy had a principal place of business in the United States. That argument was not accepted by the Arbitrator. The issues of individualized consent *were not presented* in the arbitration and *were not part* of the dispute resolution procedures." CP 250-51 (emphasis added).

6. Final Arbitration Award.

On May 30, 2012, the Arbitrator issued his Final Arbitration Award. The Arbitration Award repeated verbatim the Interim Award's analysis of MDC's claim regarding the advance consent criteria for assignment of the License Agreement. CP 368-75; *cf.* CP 409-16. But as requested by MDC, the arbitrator added a new paragraph that "declared the [Patent] Assignment Agreement void in its entirety." CP 376 at ¶ 5. The Arbitration Award purports to void not only the assignment of the License Agreement to Synergy, but also the "transfer of any rights," including the Magna Force patents. *Id.*

The arbitrator had ruled that issues related to individualized consent “were not part” of the arbitration, and therefore did not purport to have determined whether MDC unreasonably withheld consent to the assignment. CP 251. Nevertheless, the arbitrator stated that he was dismissing Magna Force’s counterclaim on that very issue *with prejudice*. CP 377 at ¶ 7. The arbitrator determined that MDC was not entitled to any damages. *Id.* at ¶ 9. The arbitrator’s only other determination was to award \$849,273 in attorney fees and expenses under the License Agreement’s fee-shifting provision. *Id.* at ¶¶ 10-12; *see also* CP 385-90 (Fee Order).

7. Confirmation proceedings.

On June 13, 2012, MDC filed a motion to confirm the Arbitration Award under RCW 7.04A.220. CP 1-7. On June 20, 2012, Magna Force filed a motion to vacate the Arbitration Award under RCW 7.04A.230, CP 31-44, and opposed the motion to confirm. CP 28-30. On August 6, 2012, Judge Inveen entered an order denying Magna Force’s motion to vacate and granting MDC’s motion to confirm. CP 53-55.

The court determined that MDC was entitled to an award of attorney fees and expenses incurred in connection with the motion to confirm and the motion to vacate. CP 54. On September 13, 2012, the

court ordered Magna Force to pay \$28,175.15 in attorney fees and costs for the confirmation proceedings. CP 167 n.2.

On December 27, 2012, the court entered its final judgment on the arbitration award, including a money judgment against Synergy and Magna Force in the amount of \$849,273 plus interest for attorney fees and expenses incurred in the arbitration. CP 167.

Magna Force filed a timely notice of appeal review on January 13, 2013. CP 171-72. Neither MDC nor Synergy has appealed from any decision of the trial court. The judgment has been stayed pending appeal. Doc. sub. no. 80.

8. Federal court action regarding Patent Assignment Agreement.

On June 19, 2012, Synergy filed suit against Magna Force in the Western District of Washington in Case No. 3:12-cv-05543 asserting claims related to the parties' rights under the Patent Assignment Agreement. Magna Force has asserted counterclaims against Synergy. The federal action is currently pending before Judge Benjamin Settle.

V. ARGUMENT

A. Standard of Review

This court reviews de novo a trial court's decision to confirm or vacate an arbitration award. *Satomi Owners Ass'n v. Satomi, LLC*, 167 Wn.2d 781, 797, 225 P.3d 213 (2009); *Fid. Fed. Bank, FSB v. Durga Ma*

Corp., 386 F.3d 1306, 1311 (9th Cir. 2004). In particular, the Court reviews de novo questions of arbitrability. *Kamaya Co. v. Am. Prop. Consultants, Ltd.*, 91 Wn. App. 703, 713, 959 P.2d 1140 (1998), *review denied*, 137 Wn.2d 1012 (1999); *McKee v. AT & T Corp.*, 164 Wn.2d 372, 383, 191 P.3d 845 (2008). The availability of contractual attorney fees also is a question of law subject to de novo review. *Tradewell Grp., Inc. v. Mavis*, 71 Wn. App. 120, 126, 857 P.2d 1053 (1993).

B. This Court Should Reverse The Trial Court’s Judgment Confirming The Arbitration Award.

1. The arbitrator exceeded his authority under Magna Force’s License Agreement with MDC by voiding the separate Patent Assignment Agreement with Synergy.

Arbitration “depends for its existing *and for its jurisdiction* upon the parties having contracted to submit to it.” *ACF Prop. Mgmt., Inc. v. Chaussee*, 69 Wn. App. 913, 920, 850 P.2d 1387, *rev. denied* 122 Wn.2d 1019, 863 P.2d 1353 (1993) (emphasis in original) (citing *Thorgaard Plumbing & Heating Co. v. King Cnty.*, 71 Wn.2d 126, 132, 426 P.2d 828 (1967)). As this Court has observed,

Although public policy strongly favors arbitration as a remedy for settling disputes, 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 arbitration defines and limits the issues to be decided. *The authority of the arbitrator is wholly dependent upon the terms of the agreement of submission. 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. at 919 (italics in original) (citations and quotation marks omitted) (affirming judgment denying motion to confirm award). *See also Godfrey v. Hartford Cas. Ins. Co.*, 142 Wn.2d 885, 894, 16 P.3d 617 (2001) (“parties are free to decide by contract whether to arbitrate, and which issues are submitted to arbitration”); *Rimov v. Schultz*, 162 Wn. App. 274, 285, 253 P.3d 462, *rev. denied* 172 Wn.2d 1026, 268 P.3d 225 (2011) (“parties cannot be compelled to arbitrate unless they have agreed to do so”); *City of Yakima v. Yakima Police Patrolmans Ass'n*, 148 Wn. App. 186, 199 P.3d 484 (2009) (arbitrator lacked authority to provide relief beyond resolving dispute submitted); *Anderson v. Farmers Ins. Co.*, 83 Wn. App. 725, 730, 923 P.2d 713 (1996) (“award must not exceed the authority established in the agreement”).

An arbitration award is “void” if the arbitrator “had no authority under [the] parties’ agreement to consider issues raised.” *ACF*, 69 Wn. App. at 913. When a claim “is not arbitrable under the agreement, the arbitrators have no power” to adjudicate that claim, and the statutory provision currently codified at RCW 7.04A.230(d) “provides sufficient authorization for the court to consider a challenge to an award.” *Teufel*

Constr. Co. v. Am. Arbitration Ass'n, 3 Wn. App. 24, 26, 472 P.2d 572 (1970).

An arbitrator also exceeds his or her powers within the meaning of RCW 7.04A.230(d) when the arbitration award exhibits “facial errors of law.” *Broom v. Morgan Stanley DW Inc.*, 169 Wn.2d 231, 237, 236 P.3d 182 (2010); *Norberg*, 101 Wn. App. at 123. In *Broom*, the Court held that the arbitrators’ “application of state statute of limitations to the respondents’ claims was facially erroneous.” *Id.* at 234. See also *Lindon Commodities, Inc. v. Bambino Bean Co.*, 57 Wn. App. 813, 816, 790 P.2d 228 (1990) (reversing judgment confirming arbitration award); *Kennewick Educ. Ass’n v. Kennewick Sch. Dist. No. 17*, 35 Wn. App. 280, 282, 666 P.2d 928 (1983) (refusing to enforce arbitration award granting punitive damages); *Norberg*, 101 Wn. App. at 119. Here the arbitrator exceeded his authority and erred as a matter of law on the face of the award by voiding in its entirety the Patent Assignment Agreement between Magna Force and Synergy.

a. The arbitrator exceeded his authority under the contract provision limiting arbitration to disputes related the License Agreement itself.

Under Washington and federal law, “arbitration is a matter of contract and a party cannot be required to submit to arbitration any dispute which he has not agreed so to submit.” *Woodall v. Avalon Care Ctr.-Fed.*

Way, LLC, 155 Wn. App. 919, 923, 231 P.3d 1252 (2010) (quoting *Satomi Owners Ass'n, LLC*, 167 Wn.2d at 810). The License Agreement's arbitration clause is limited to disputes "relating to the interpretation, construction, application or requirements *of this Agreement*." CP 99 (emphasis added). The License Agreement thus authorized the arbitrator to determine whether Magna Force's assignment to Synergy of its rights under the License Agreement satisfied the three advance consent prongs (MDC's claim), and whether MDC unreasonably withheld consent to any assignment to Synergy (Magna Force's counterclaim).

The arbitrator concluded Magna Force did not satisfy the third prong of the advanced consent criteria for assigning the License Agreement and its rights under Agreement. CP 380. At MDC's request, the arbitrator then went on to conclude that because Magna Force did not satisfy the advance consent standards for assigning the license, it was also barred from assigning the patents themselves, and purported to void the Patent Assignment Agreement in its entirety. CP 380-81. This ruling exceeded the arbitrator's authority under the License Agreement.

First, the License Agreement and the Patent Assignment Agreement are *different contracts*. The arbitration clause of one agreement does not extend to disputes arising under a separate contract. *Weiss v. Lonquist*, 153 Wn. App. 502, 512, 224 P.3d 787 (2009)

(arbitration clause in prior employment contract did not cover dispute arising from subsequent contract, even though contracts involved same parties and terms). *See also Davis v. General Dynamics Land Sys.*, 152 Wn. App. 715, 719, 217 P.3d 1191 (2009) (arbitration clause in employment contract did not cover dispute arising from prior employment relationship between the parties); *Nelson v. Westport Shipyard, Inc.*, 140 Wn. App. 102, 163 P.3d 807 (2007) (arbitration provision in shareholder agreement does not cover disputes related to other legal relationships, including employment agreement); RCW 7.04A.100 (standards for consolidating arbitration under multiple contracts each providing for arbitration).

Second, Magna Force entered into the License Agreement and the Patent Assignment Agreement with *different parties*. *See, e.g., Capitol Life Ins. Co. v. Gallagher*, 839 F. Supp. 767, 769 (D. Colo 1993) (arbitration agreement did not extend to adjudicating rights of parties to separate contract). As a non-party to the Patent Assignment Agreement, MDC cannot use arbitration under the License Agreement to invalidate the separate Patent Assignment Agreement or to determine Synergy's and Magna Force's respect rights under their separate contract.

Third, Magna Force entered into the Patent Assignment Agreement *years later* than the License Agreement. As a matter of law, the two

contracts cannot be considered parties of a unified transaction covered by a single arbitration clause. *Contrast Boyd v. Davis*, 127 Wn.2d 256, 897 P.2d 1239 (1995) (arbitration provision covered disputes related to five contracts executed as part of single transaction); *see International Ambassador Programs v. Archexpo*, 68 F.3d 337, 339-40 (9th Cir. 1995) (arbitration provision did not cover dispute related to similar contract the same parties executed three months later).

Finally, the License Agreement and the Patent Assignment Agreement involve **different legal rights**. Patent owners and licensees possess fundamentally different intellectual property interests. *See, e.g., In Re Cybernetic Servs., Inc.*, 252 F.3d 1039 (9th Cir. 2001). A patent **license** agreement clause prohibiting assignment of the “[a]greement and the rights and duties of the Parties” does not prohibit assignment of the **patents** associated with the license agreement. *Boehringer Ingelheim Vetmedica, Inc. v. Merial, Ltd.*, No. 3:09-CV-212, 2010 U.S. Dist. LEXIS 6819, at *21-22 (D. Conn. Jan. 14, 2010). Moreover, the Magna Force patents cannot be considered “rights, title or interests” under the License Agreement because a contract cannot grant a person title to property the person already owns. *See Butler v. Craft Eng. Const. Co., Inc.*, 67 Wn. App. 684, 698, 843 P.2d 1071 (1992) (agreement could not grant easement to party that already owned the property in fee simple); *Barnes v. Spurch*,

121 Wash. 338, 341, 209 P. 513 (1922) (agreement could not grant a person the right to use a wall, when the person already possessed that right). Here the arbitrator exceeded his authority as a matter of law by purporting to invalidate the entire Patent Assignment Agreement with Synergy.

b. Magna Force did not consent to expand the arbitrator’s jurisdiction to cover the entire Patent Assignment Agreement.

During the confirmation proceedings MDC recharacterized the scope of the arbitration, contending that the dispute “[a]t issue in the Arbitration was the validity of an agreement between Respondents that purported to transfer from [Magna Force] to Synergy the License Agreement *as well as the patents it covered.*” CP 154 (emphasis added). To the contrary, MDC had moved to compel arbitration of a specific dispute: whether Magna Force’s assignment of the License Agreement to Synergy was valid under Section 14.5 of the License Agreement. The trial court determined that this dispute was covered by Section 12 of the License Agreement, and ordered the parties to arbitrate the dispute. CP 129 at ¶¶ 2, 6, 20. The order compelling arbitration does not refer to the Patent Assignment Agreement, to the assignment of the MDC patents to Synergy,

nor to any term of the Patent Assignment Agreement other than the assignment of the License Agreement. CP 129-32.¹

The License Agreement provides that “[a]ny other dispute between the Parties under this Agreement may be submitted to arbitration” only “upon agreement of the Parties.” CP 100. It is undisputed that Magna Force never agreed to submit any additional disputes to arbitration pursuant to Section 12.4. *Id.*

Nevertheless, once the arbitrator had completed the hearing, MDC unilaterally expanded the scope of the arbitration. The arbitrator had ruled in its favor on the issue of whether Synergy was located in the United States. CP 417. MDC then moved to “finalize” the award by expanding it to cover not just Magna Force’s assignment to Synergy of its rights under the License Agreement, but also the validity of the assignment of the patents themselves. CP 379. Both Magna Force and Synergy objected. CP 380. Nevertheless, the arbitrator ruled that “the authority granted by

¹ The trial court also ordered the parties to arbitrate a second dispute regarding whether there were valid grounds for the licensor to terminate the License Agreement. CP 129 at ¶¶ 2, 6; CP 131 at ¶ 20. However, the parties subsequently agreed to limit the arbitration to their dispute over the License Agreement assignment. *See* CP 254 (“This initial phase of arbitration is to determine one issue – whether Respondent Magna Force, Inc. validly assigned its rights as licensor to Respondent Synergy”).

the arbitration agreement” permitted him to determine “the validity of the [Patent] Assignment Agreement.” *Id.*

Courts, not arbitrators, must determine whether a party has consented to arbitration. *Kamaya Co., Ltd.*, 91 Wn. App. at 713. The most fundamental principle governing arbitration is that “parties cannot be compelled to arbitrate unless they have agreed to do so.” *Rimov*, 162 Wn. App. at 285. Because the arbitrator in this case “had no authority under the parties’ arbitration agreement to consider” the validity of the Patent Assignment Agreement, the Arbitration Award is “void.” *ACF*, 69 Wn. App. at 913. This court should reverse the trial court’s decision.

2. The arbitrator also exceeded his powers by refusing to consider Magna Force’s Counterclaim.

This Court should also reverse the judgment on the separate and independent ground that the arbitrator erred by refusing to consider Magna Force’s counterclaim and instead dismissing it with prejudice.

When Magna Force agreed to assign to Synergy the License Agreement, the Magna Force patents, and the other intellectual property covered by the Patent Assignment Agreement, it understood that Synergy as a California-based company fell within the License Agreement’s advance consent provision. CP 266. Nevertheless, throughout the parties’ dispute, Magna Force has repeatedly contended that irrespective of the

scope of the advance consent provision, it would be unreasonable for numerous reasons for MDC to withhold consent to a License Agreement assignment to Synergy, including MDC's own connections to China. *See, e.g.*, CP 266-67.

Magna Force never formally requested consent from MDC to the Synergy assignment (because it believed none was needed), but MDC has unequivocally withheld its consent, and Magna Force need not formally request consent when the other party openly and unreasonably opposes the assignment. *See Robbins v. Hunts Food & Indus., Inc.*, 64 Wn.2d 289, 296, 391 P.2d 713 (1964) (a qualified assignment-consent provision has “the effect of relieving the assignor of the consent requirement in the event of unreasonable refusal of consent”); *Roundup Tavern v. Pardini*, 68 Wn.2d 513, 514, 413 P.2d 820 (1966) (assignment valid even though it required prior written consent, which was not obtained).

In response to MDC's demand for arbitration, Magna Force therefore asserted a written counterclaim seeking a declaration that “MagnaDrive has no reasonable basis for withholding consent to the assignment” of the License Agreement. CP 113. “Arbitrators are to determine the question submitted in writing.” *Price*, 133 Wn.2d at 496. Nevertheless, the arbitrator refused to consider Magna Force's claim. Instead, after issuing its interim award ruling determining MDC's claim

that Synergy did not satisfy the advance consent requirements of Section 14.5, CP 409, the arbitrator informed Magna Force 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.” CP 251. The Arbitrator’s facial error is fatal to the award both under RCW 7.04A.230(d) and also under RCW 7.04A.230(c), which provides that courts must vacate an award where the arbitrator “refused to consider evidence material to the controversy.”

3. The arbitrator’s errors appear on the face of the Award.

Because courts generally may not delve into the merits of an arbitrator’s determinations, the facial legal error standard requires that the error must be recognizable from the language of the award. *Federated Servs. Ins. Co. v. Norberg*, 101 Wn. App. 119, 124, 4 P.3d 844 (2000). Similarly, in determining the arbitrability of a particular claim or action, a court reviews “the arbitration clause, the contentions of the parties, and the face of the award itself.” *ML Park Place Corp. v. Hedreen*, 71 Wn. App. 727, 739, 862 P.2d 602 (1993).

The arbitration award ordinarily “consists of a statement of the outcome, much as a judgment states the outcome.” *Westmark Properties, Inc. v. McGuire*, 53 Wn. App. 400, 403, 766 P.2d 1146 (1989). But where a final award sets forth the arbitrator’s reasoning along with the actual

outcome, any issue of law evident in the reasoning may also be considered as part of the face of the award. *Cummings v. Budget Tank Removal & Env. Servs., LLC*, 163 Wn. App. 379, 389, 260 P.3d 220 (2011); *Norberg*, 101 Wn. App. at 125.

Here the arbitrator's error is apparent both from the statement of the outcome and also from the arbitrator's stated reasoning. Over Magna Force's objection, the arbitrator determined that MDC's new claim was arbitrable, and proceeded to consider and rule on MDC's challenge to provisions of the Patent Assignment Agreement other than the assignment of License Agreement to Synergy. CP 380-81. In the end, the arbitrator did not merely invalidate Magna Force's assignment of the License Agreement and its rights under that agreement. To the contrary, the arbitrator "declared the Assignment Agreement void in its entirety," and specifically determined that the Patent Assignment Agreement did not transfer the Magna Force patents to Synergy. CP 376. Moreover, the Arbitration Award incorporates the Memorandum Opinion on Motion to Finalize Award, *id.*, which sets forth the arbitrator's circular reasoning on this issue. CP 380. The arbitrator's failure to make a final and complete award on Magna Force's counterclaim is also apparent from the face of the Arbitration Award. CP 377 ("The Assignment Agreement was declared void and Respondents' counterclaims are therefore dismissed with

prejudice”). Because the Award exhibits “facial errors of law,” it should be vacated under RCW 7.04A.230(d). *Broom*, 169 Wn.2d at 237.

C. The Court Should Direct That A New Arbitrator Consider The Parties’ Claims.

“Any action” taken by an arbitrator “beyond that which is submitted is subject to vacation by the court.” *Price v. Farmers Ins. Co. of Wash.*, 133 Wn.2d 490, 500, 946 P.2d 388 (1997). RCW 7.04A.220(3) provides that in vacating an arbitration award under RCW 7.04A.222(1)(d), “the court may order a rehearing before a new arbitrator.” *See also Agnew v. Lacey Co-Ply*, 33 Wn. App. 283, 654 P.2d 712 (1982), *review denied*, 99 Wn.2d 1006 (1983). When an arbitrator’s error is “serious,” the court should direct a hearing before a new arbitrator. *See Harris v. Grange Ins. Ass’n*, 73 Wn. App. 195, 200, 868 P.2d 201 (1994). In this case, the arbitrator erroneously extended his own jurisdiction, CP 380-81, and failed to make a final and definite award on Magna Force’s counterclaim – even after Magna Force’s specific request that he do so. CP 251. These serious errors violated the most fundamental principles governing arbitration, and warrant rehearing before a new arbitrator.

D. The Trial Court Should Have Awarded Attorney Fees and Costs Incurred in the Confirmation Action to Magna Force, Not to MDC.

1. The trial court erred in awarding attorney fees and costs to MDC under the fee-shifting provision of the License Agreement.

Section 14.6 of the License Agreement authorizes an award of attorney fees to the prevailing party in any action:

In the event of any action to enforce this Agreement or on account of any breach of or default under this Agreement, the prevailing Party in such action shall be entitled to recover, in addition to any other relief to which it may be entitled, from the other Party all reasonable attorneys' fees incurred by the prevailing party in connection with such action (including, but not limited to, any appeal thereof).

CP 222.

The trial court awarded MDC a total of \$28,175.15 pursuant to this provision for attorney fees and expenses incurred in the confirmation action. CP 167.² Because the trial court erred in confirming the Arbitration Award, this Court should reverse the award of prevailing party attorney's fees and costs. *See, e.g., McFreeze Corp. v. State, Dep't of Revenue*, 102 Wn. App. 196, 201, 6 P.3d 1187 (2000).

² This fee award is separate from the arbitrator's award of \$849,273 for attorney fees and expenses incurred by MDC in the arbitration itself, CP 377, which is included in the judgment, CP 167, and would be vacated if this Court reverses the trial court's judgment confirming the Arbitration Award.

2. The trial court erred in failing to award Magna Force its attorney fees and costs incurred in the confirmation proceedings.

As discussed above in Section B, the trial court erred by granting MDC's motion to confirm, and should have instead granted Magna Force's motion to vacate the Arbitration Award. If this Court reverses the lower court's rulings, *Magna Force* will be entitled an award of its attorney fees and costs incurred in the confirmation action. *See, e.g.*, License Agreement at ¶ 14.6, CP 222; *Boyd v. Davis*, 75 Wn. App. 23, 28, 876 P.2d 478 (1994) (party successfully appealing from judgment in confirmation action entitled to award of attorney fees in trial court on remand under contractual fee-shifting provision), *aff'd* 127 Wn.2d 256, 867 P.2d 1239 (1995). This Court should direct that the trial court on remand award Magna Force its reasonable attorney fees and expenses incurred in the confirmation action.

E. The Court Should Award Magna Force Its Attorney Fees and Costs on Appeal.

Pursuant to RAP 18.1, Magna Force requests that this Court award its attorney fees on appeal. "In general, a prevailing party who is entitled to attorney fees below is entitled to attorney fees if it prevails on appeal." *Martin v. Johnson*, 141 Wn. App. 611, 623, 170 P.3d 1198 (2007). Moreover, Section 14.6 of the License Agreement specifically provides for an award of attorney fees to the prevailing party in any appeal. CP 222. This Court should therefore award Magna Force the right to reasonable

attorney fees and expenses on appeal, and direct the Commissioner to determine the amount of the award pursuant to RAP 18.1(d) and (f).

VI. CONCLUSION

Because an “arbitrator’s powers are governed by the agreement to arbitrate,” an arbitration “award must not exceed the authority established in the agreement.” *Anderson*, 83 Wn. App. at 730. Under the License Agreement, the parties agreed to arbitrate both MDC’s claim that the assignment of the License Agreement did not satisfy the advance consent provision of Section 14.5, as well as Magna Force’s counterclaim seeking a declaration that MDC has no reasonable basis for withholding consent to the assignment of the License Agreement. Unfortunately, the arbitrator exceeded his authority. 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 22nd day of May, 2013.

Respectfully Submitted By:

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CERTIFICATE OF SERVICE

I hereby certify that on May 22, 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 22nd day of May, 2013.



Lisa Bass

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