

OCTOBER 23, 2006

## Qualcomm Inc. v. Nokia Corp.

No. 06-1317, Federal Circuit (Newman, Schall, Prost)

***“Unless the parties clearly and unmistakably provide otherwise, the question of whether the parties agreed to arbitrate is to be decided by the court, not the arbitrator.”***

On October 20, 2006, the Federal Circuit vacated and remanded the district court’s order denying Nokia’s motion to stay litigation pending arbitration in a case concerning 12 Qualcomm patents for Code Division Multiple Access (CDMA) wireless telecommunication technology. The dispute involved an agreement granting Nokia a non-exclusive license to certain Qualcomm patents. The Federal Circuit stated:

[T]he 2001 Agreement between the parties clearly states that it “shall be governed by and construed and enforced in accordance with the laws of the State of California ....” [and] “California law is consistent with federal law on the question of who decides disputes over arbitrability” ... Thus, “[u]nless the parties clearly and unmistakably provide otherwise, the question of whether the parties agreed to arbitrate is to be decided by the court, not the arbitrator.”

The 2001 Agreement incorporates the AAA Rules as follows: “Any dispute, claim or controversy arising out of or relating to this Agreement, or the breach or validity hereof, shall be settled by arbitration in accordance with the arbitration rules of the American Arbitration Association (the ‘AAA Rules’)” ... Article 15 of the AAA Rules provides that “[t]he tribunal shall have the power to rule on its own jurisdiction, including any objections with respect to the existence, scope or validity of the arbitration agreement” ... [B]ecause the agreement at issue ... incorporated the AAA Rules and because those rules give the arbitrator “the power to rule on his or her own jurisdiction, including any objections with respect to the existence, scope or validity of the arbitration agreement,” the parties’ incorporation of those rules evidences a clear and unmistakable intent to delegate the determination of arbitrability to an arbitrator ... [T]he 2001 Agreement, which incorporates the AAA Rules ... clearly and unmistakably shows the parties’ intent to delegate the issue of



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determining arbitrability to an arbitrator.

... [T]he next inquiry is whether Nokia's assertions of arbitrability are "wholly groundless." In this case, Nokia asserts that it has raised two issues that are arbitrable. The first is an estoppel defense that, as an affirmative defense, Nokia would be required to plead in an answer to Qualcomm's Complaint. Specifically, Nokia asserts that Qualcomm's conduct during the negotiations leading to the 2001 Agreement deliberately led Nokia to believe that Qualcomm did not hold patents related to [Global System for Mobile Communications] GSM-based technology and therefore Nokia did not need to acquire a license for GSM-based products. Further, Nokia argues that its estoppel defense clearly "arises out of or relate[s] to" the 2001 Agreement. Second, Nokia asserts that there is an issue with respect to the scope of the license granted in the 2001 Agreement ...

Although we recognize that the 2001 Agreement contains a broad arbitration clause, which includes "[a]ny dispute, claim or controversy arising out of or relating to this Agreement, or the breach or validity hereof," ... and that Nokia's estoppel defense is based on events that transpired during the negotiations surrounding the 2001 Agreement and may, with a favorable ruling, directly affect Qualcomm's infringement case, the district court has not yet had the opportunity to apply the "wholly groundless" test to either of Nokia's defenses. The transcript of the district court's March 13, 2006 hearing reveals that the district court did not perform a "wholly groundless" inquiry. Rather, the court identified the issue as though it was required to rule on the arbitrability of Nokia's defenses itself ....

On remand, in undertaking the "wholly groundless" inquiry, the district court should look to the scope of the arbitration clause and the precise issues that the moving party asserts are subject to arbitration. Because any inquiry beyond a "wholly groundless" test would invade the province of the arbitrator, whose arbitrability judgment the parties agreed to abide by in the 2001 Agreement, the district court need not, and should not, determine whether Nokia's defenses are in fact arbitrable. If the assertion of arbitrability is not "wholly groundless," the district court should conclude that it is "satisfied" ...

For more information on these issues or other intellectual property law matters, please contact **Lawrence M. Sung, Ph.D.** at [lsung@nixonpeabody.com](mailto:lsung@nixonpeabody.com) or 202-585-8221.

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