

# **Appellant's Brief**

ORIGINAL

BRIEF FOR APPELLANT

IN THE  
United States Court of Appeals  
FOR THE FEDERAL CIRCUIT

Appeal No. 88-1351

AEROJET-GENERAL COPP.,  
*Plaintiff-Appellant,*

v.

MACHINE TOOL WORKS,  
OERLIKON-BUEHRLE, LTD.,  
*Defendant-Appellee.*

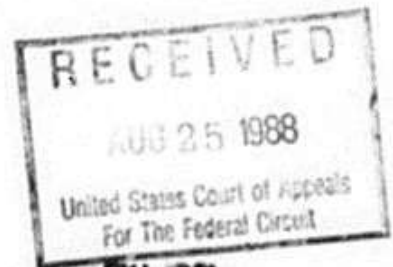
APPEAL FROM THE MARCH 14, 1988  
ORDER OF THE UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA  
HONORABLE IRVING HILL, JUDGE

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THE FEDERAL CIRCUIT

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## TABLE OF CONTENTS

	<u>Page</u>
Table of Contents . . . . .	i
Table of Authorities . . . . .	iv
Certificate of Interest . . . . .	
STATEMENT OF RELATED CASES PURSUANT TO FEDERAL CIRCUIT RULE 47.5 . . . . .	
STATEMENT OF JURISDICTION PURSUANT TO FEDERAL CIRCUIT RULE 47.6 . . . . .	
<u>STATEMENT OF THE ISSUES</u> . . . . .	1
<u>STATEMENT OF THE CASE</u> . . . . .	2
The Nature of the Case and Course of the Proceedings . . . . .	2
The Background and Facts Relating to This Appeal . . . . .	2
<u>SUMMARY OF ARGUMENT</u> . . . . .	11
<u>ARGUMENT</u> . . . . .	13
I.    THE LAW OF THIS CIRCUIT GOVERNS THE QUESTIONS OF WHETHER AN ARBITRATION CLAUSE ENCOMPASSES PATENT INFRINGEMENT ISSUES AND WHETHER ANY RIGHT TO ARBITRATION HAS BEEN WAIVED . . . . .	13
II.   OERLIKON HAS WAIVED ANY RIGHT TO ARBITRATION . .	14
(a) The Issue of Waiver Is Reviewable <u>de novo</u> . . . . .	14
(b) The Law of Waiver. . . . .	15
(c) Active Participation In A Lawsuit Or Other Action Inconsistent With the Later Assertion Of A Right To Arbitrate Constitutes Waiver. .	15
(d) Aerojet Should Not Be Required To Prove Prejudice To Establish Waiver . . . . .	17

Table of Contents continued

Page

(e) The Presence Of Prejudice Is An Added Reason Compelling A Finding Of Waiver And Is Required Under The Minority Rule . . .	18
(f) Aerojet Has Been Prejudiced By Oerlikon's Delay In Raising The Issue Of Arbitration . . . . .	19
(g) Oerlikon Is Charged With Knowledge Of The Agreement And The Arbitration Clause	21
 III. THE DISTRICT COURT ERRED IN INTERPRETATING THE ARBITRATION CLAUSE TO COVER DISPUTES OTHER THAN OERLIKON'S COUNTERCLAIMS FOR BREACH OF THE 1981 PURCHASE AND FOR MISAPPROPRIATION OF TRADE SECRETS SPECIFIC TO THAT PURCHASE. . . . .	 23
(a) Interpretation Of The Arbitration Clause Should Be Reviewed <u>De Novo</u> . . . . .	23
(b) Analysis Of The Arbitration Clause Depends Upon Traditional Rules Of Contract Law . . .	24
(c) The District Court Erred As A Matter Of Law In Construing The Scope Of The Arbitration Clause . . . . .	25
(i) The District Court Disregarded the Plain Meaning of the Words "Present Contract" in the Arbitration Clause. . .	25
(ii) The District Court Erred In Its Construction of Paragraph 1.5 and The Word "Data" . . . . .	27
(d) The Expansive Reading Given The Arbitration Clause Imputes To The Parties An Intent That Is Irreconcilable With The Law As Is Stood At The Time Of The Agreement. . .	31
(e) The Arbitration Clauses Cannot Be Transported From One Agreement To Another. . . . .	33



Table of Contents continued

Page

IV. THE DISTRICT COURT ABUSED ITS DISCRETION IN STAYING THIS ACTION PENDING COMPLETION OF ARBITRATION . . . . .	35
CONCLUSION . . . . .	36

# TABLE OF AUTHORITIES

## Page

### CASES:

<u>Alascom, Inc. v. ITT North Electric Co.,</u> 727 F.2d 1419 (9th Cir. 1984) . . . . .	35
<u>Alexander v. Gardner-Denver Co.,</u> 415 U.S. 36, 94 S.Ct. 1011, 39 L.Ed.2d 147 (1974) . . . . .	29
<u>Alvin, Limited v. United States Postal Service,</u> 816 F.2d 1562 (Fed. Cir. 1987) . . . . .	29
<u>Associated Plumbing &amp; Mechanical Contractors of Sacramento, Inc. v. Local Union No. 447, United Association of Journeyman and Apprentices of the Plumbing and Pipe Fitting Industry, 811 F.2d 480 (9th Cir. 1987) . . . . .</u>	23, 24
<u>ATSA of Calif., Inc. v. Continental Ins. Co., et al.,</u> 702 F.2d 172 (9th Cir. 1983) . . . . .	19
<u>Avant Petroleum, Inc. v. Banque Paribas, et al.,</u> 652 F.Supp. 542 (S.D.N.Y. 1987) . . . . .	23
<u>Babcock &amp; Wilcox Co. v. Public Service Co. of Indiana, Inc., 193 U.S.P.Q. 161 (S.D. Ind. 1976) . . .</u>	32
<u>Barrentine v. Arkansas-Best Freight System, Inc.,</u> 450 U.S. 728, 101 S.Ct. 1437, 67 L.Ed.2d 641 . . . . .	33
<u>Beck Park Apartments v. United States Dept. of Housing and Urban Development,</u> 695 F.2d 366 (9th Cir. 1982) . . . . .	31
<u>Beckman Instruments, Inc. v. Technical Development Corp.,</u> 433 F.2d 55 (9th Cir. 1970), cert.den. 402 U.S. 976, 91 S.Ct. 1199 (1971) . . . . .	31

	<u>Page</u>
<u>Brobeck, Phleger and Harrison v. Telex Corp.,</u> 602 F.2d 866 (9th Cir. 1979) . . . . .	31
<u>California Pacific Bank v. Small Business</u> <u>Administration, 557 F.2d 218 (9th Cir. 1977)</u> . . . .	29
<u>Camel Hair and Cashmere Institute, Inc.</u> <u>v. Associated Dry Goods Corp.,</u> 799 F.2d 6 (1st Cir. 1986) . . . . .	20
<u>Carcich v. Rederi A/B Nordie,</u> 389 F.2d 692 (2nd Cir. 1968) . . . . .	19
<u>Connecticut General Life Insurance Co. v. Craton,</u> 405 F.2d 41 (5th Cir. 1968) . . . . .	30
<u>Cornell &amp; Co. v. Barber &amp; Ross Co</u> 360 F.2d 512 (D.C. Cir. 1966) . . . . .	21, 22
<u>E. C. Ernst, Inc. v. Manhattan Const. Co. of Tex.,</u> 559 F.2d 268 (5th Cir. 1977) . . . . .	17
<u>Farker Co. v. R.A. Hanson Disc, Ltd.,</u> 583 F.2d 68 (2nd Cir. 1978) . . . . .	27
<u>Fisher v. A. G. Becker Paribas, Inc.</u> 791 F.2d 691 (9th Cir. 1986) . . . . .	14
<u>Gardo Mfg. Inc. v. Herst Lighting Co.,</u> 820 F.2d 1209, 2 U.S.P.Q. 2nd. 2015, (Fed.Cir. 1987) . . . . .	14
<u>Gavlik Construction Co. v. H. F. Campbell Co., et al.,</u> 526 F.2d 777 (3rd Cir. 1975) . . . . .	19
<u>Gilmore v. Shearson/American Express, Inc.,</u> 811 F.2d 108 (2nd Cir. 1987) . . . . .	19

	<u>Page</u>
<u>Hanes Corp. v. Millard,</u> 531 F.2d 585, 189 U.S.P.Q. 331 (D.C. Cir. 1976) . . .	32
<u>Home Building &amp; Loan Association v. Laisdell,</u> 290 U.S. 398, 54 S.Ct. 231 (1933) . . . . .	31
<u>Hunt Wesson Foods, Inc. v. Supreme Oil Co.,</u> 817 F.2d 75, (9th Cir. 1987) . . . . .	26
<u>In re Mercury Construction Corp.,</u> 656 F.2d 933 (4th Cir. 1981) . . . . .	16
<u>Interpetrol Bermuda Limited v. Kaiser</u> <u>Aluminum International Corp.,</u> 719 F.2d 992 (9th Cir. 1983) . . . . .	25, 29
<u>Jones Motor Co., Inc. v. Chauffeurs,</u> <u>Teamsters &amp; Helpers Local Union No. 633</u> <u>of New Hampshire,</u> 671 F.2d 38 (1st Cir. 1982) cert.den.459 U.S. 943, 103 S.Ct. 257 (1982) . . . . .	18
<u>Kamakazi Music Corp. v. Robbins Music Corp.,</u> 522 F.Supp. 125, 214 U.S.P.Q. 149 (S.D.N.Y. 1981) . .	32
<u>Laborers Health and Welfare Trust Fund for</u> <u>Northern California v. Kaufman &amp; Broad of</u> <u>Northern California,</u> 707 F.2d 412 (9th Cir. 1983) . . . . .	30
<u>Leesona Corp. v. Cotwool Manufacturing Corp.,</u> <u>Judson Mills Division,</u> 204 F.Supp. 141, 134 U.S.P.Q. 24 (3rd S.C. 1962), 315 F.2d 538, 137 U.S.P.Q. 174 (4th Cir. 1962) . . .	32
<u>Marchese v. Shearson Hayden Stone, Inc.,</u> 734 F.2d 414 (9th Cir. 1984) . . . . .	23, 24
<u>Mediterranean Enterprises, Inc. v. Saangvong Corp.,</u> 708 F.2 1458 (9th Cir. 1983) . . . . .	24, 35

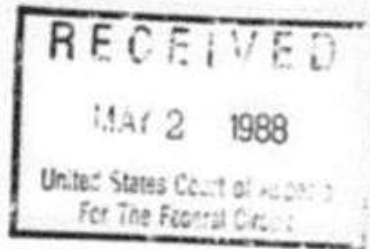


	<u>Page</u>
<u>Midwest Window Systems, Inc. v. Amcor Ind., Inc.,</u> 630 F.2d 535 (7th Cir. 1980) . . . . .	16, 17
<u>Miller Brewing Co. v. Fort Worth Distributing Co.,</u> 781 F.2d 494 (5th Cir. 1986) . . . . .	15, 17
<u>National Foundation for Cancer Research v.</u> <u>A. G. Edwards &amp; Sons, Inc.,</u> 821 F.2d 772, (D.C. Cir. 1987) . . . . .	15, 17, 21
<u>N &amp; D Fashions, Inc. v. DHJ Industries, Inc.,</u> 548 F.2d 722 (8th Cir. 1977) . . . . .	16
<u>N. V. Maatschappij Voor Industriële</u> <u>Waarden v. A. O. Smith Corp.,</u> 532 F.2d 874, 190 U.S.P.Q. 385 (2nd Cir. 1976) . . .	32
<u>Necchi v. Necchi Sewing Machine Sales Corp.,</u> 348 F.2d 693 (2nd Cir. 1965) . . . . .	33, 34
<u>Ohio-Sealy Mattress Manufacturing Co., v. Kaplan, et al.,</u> 712 F.2d 270 (7th Cir. 1983) . . . . .	18
<u>Rhone-Poulenc Specialites Chimique v. SCM Corp.,</u> 769 F.2d 1569, ____ U.S.P.Q. ____ (Fed. Cir. 1985) . . . . .	15
<u>S. A. Mineracao Da Trindade-Samitri v. Utah</u> <u>International, Inc.,</u> 745 F.2d 190 (2nd Cir. 1984) . . . . .	34
<u>Seaboard Coast Line Railroad Co. v.</u> <u>Trailer Train Co.,</u> 690 F.2d 1343 (11th Cir. 1982) . . . . .	33
<u>Sun Studs, Inc. v. Applied Theory Assoc., Inc.</u> 772 F.2d 1557, 227 U.S.P.Q. 81 (Fed. Cir. 1985) . . .	14

	<u>Page</u>
<u>TWM Mfg. Co., Inc. v. Dura Corp.,</u> 789 F.2d 895 (Fed. Cir. 1986) . . . . .	36
<u>United States v. Moorman</u> 338 U.S. 457, 70 S.Ct. 288, 94 L.Ed. 256 (1950) . . .	25
<u>Valero Refining, Inc. v. M/T Lauberhorn,</u> 813 F.2d 60 (5th Cir. 1987) . . . . .	17
<u>Verdegaal Brothers, Inc. v. Union Oil Co.</u> <u>of California,</u> 750 F.2d 947 (Fed. Cir. 1984) . . . . .	36
<u>Wood v. Lovett,</u> 313 U.S. 362, 61 S.Ct. 983, 85 L.Ed. 1404 (1940) . . . . .	31
<u>Zip Mfg. Co. and Zip Abrasive Co. v. Pep Mfg. Co.,</u> 7 U.S.P.Q. 62 (D.E. Del. 1930) . . . . .	32

**STATUTES:**

35 U.S.C. 294 . . . . .	32
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IN THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

AEROJET-GENERAL CORPORATION,	)	Civil Action No. 88-1351
	)	
Appellant,	)	
	)	
v.	)	
	)	
MACHINE TOOL WORKS,	)	
OERLIKON-BUEHRLE LTD.,	)	
	)	
Appellees.	)	

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CERTIFICATE OF INTEREST

The undersigned counsel of record for AEROJET-GENERAL CORPORATION (Plaintiff-Appellant) furnishes the following list in compliance with Local Rule 8 of the United States Court of Appeals for the Federal Circuit:

(a) The full name of every party represented by the attorney in this case is:

AEROJET-GENERAL CORPORATION, an Ohio corporation

(b) The real party in interest is as stated in (a).

(c) The publicly held parent of AEROJET-GENERAL CORPORATION is GenCorp Inc.


(d) Pretty, Schroeder, Brueggemann & Clark

Respectfully submitted,

PRETTY, SCHROEDER, BRUEGGEMANN  
& CLARK

Dated: 4-28-88

By:

  
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STATEMENT OF RELATED CASES PURSUANT TO  
=====

FEDERAL CIRCUIT RULE 47.5  
=====

- (1) No other appeal in connection with the underlying civil action has previously been before this court or any other appellate court.
  
- (2) Appellant Aerojet-General Corp. (Aerojet) does not believe that there are any related cases pending before this court or any other court that will directly affect or be directly affected by this court's decision in the pending appeal. In an effort to ensure complete compliance with Rule 47.5, however, Aerojet wishes to advise the court that the subject matter of this civil action is currently the subject of an arbitration proceeding, No. 6211/BGD, commenced by Appellee Machine Tool Works, Oerlikon Buehrle Ltd. (Oerlikon) before the International Chamber of Commerce in London, England. The arbitrability of that subject matter is at issue in this appeal.

STATEMENT OF JURISDICTION PURSUANT TO  
=====

FEDERAL CIRCUIT RULE 47.6

=====

(a) The statutory bases for jurisdiction of the United States District Court for the Central District of California in this civil action is 28 U.S.C. §§ 1331, 1332 and 1338.

(b) The statutory basis for jurisdiction of this court to hear this appeal is 28 U.S.C. §§ 1291 and 1295 or, alternatively, 28 U.S.C. § 1292.

(c) This appeal is timely, pursuant to 28 U.S.C. § 2107.

## STATEMENT OF THE ISSUES

=====

1. Did Oerlikon waive any right to arbitration of the disputes sub judice by (1) litigating the jurisdiction of the District court for six months before raising any question as to arbitration, and (2) actively concealing from Aerojet during that period its intention to rely in this action on a purchase agreement that contains the arbitration clause in issue?

2. Does the arbitration clause in issue, which is part of an attachment to a purchase order and is limited by its terms to "the present contract", require Aerojet to arbitrate (1) rights of Oerlikon as a supposed third party beneficiary of an alleged prior agreement between Aerojet and the U.S. Army, and (2) patent infringement claims of an entirely non-contractual nature?

3. Did the District Court abuse its discretion, or fail to properly exercise its discretion, when it stayed this case pending the outcome of arbitration before the International Chamber of Commerce, based on a mistake of law as to the existence of a waiver of the asserted right to arbitrate and the scope of the arbitration clause?



## STATEMENT OF THE CASE

\*\*\*\*\*

### The Nature of the Case

#### and Course of the Proceedings

This case was brought by Aerojet in the District Court for the Central District of California on January 3, 1987. (A.76) It involves Aerojet's claims for unfair competition, interference with contract, and interference with economic advantage, and Oerlikon's counterclaims for trade secret misappropriation and patent infringement. (A. 85-90 and 234-251).<sup>\*</sup> At stake is the right of Aerojet to sell "Bushmaster" military ammunition to parties other than the United States without interference by Oerlikon. On a motion by Oerlikon, the District Court stayed the entire proceeding on March 14, 1988, holding that all issues herein are to be resolved in arbitration, pursuant to a 1981 purchase agreement. The order also requires that the parties proceed with arbitration before the International Chamber of Commerce. (A. 1-4).

### The Background and Facts

#### Relating to This Appeal

Aerojet and Oerlikon are competitive manufacturers of Bushmaster ammunition, the term "Bushmaster" being applied by the United States Army to a certain type of 25mm ammunition procured from a variety of manufacturers (A. 235, para. 4 of Oerlikon's counterclaims). Oerlikon had, in 1964, licensed its version of Bushmaster ammunition to TRW, Inc., which assigned

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\* Citations to the Appendix are abbreviated as A. \_\_\_\_; other abbreviations used are Tr. \_\_\_\_ for Reporter's Transcript of Court Proceedings and para. for paragraph.



its rights to Aeronautic Ford Corporation (Ford) in 1972. Ford, in turn, licensed the United States Army, permitting the Army to have manufactured for it ammunition of the Ford/Oerlikon design (A. 422-424)

In connection with the Army's efforts to procure Bushmaster ammunition from an adequate number of sources, it supplied Aerojet, in November of 1980, with a "Technical Data Package" (hereafter the "TDP") containing certain information about Bushmaster ammunition (A. 236-237 and 469-471). The TDP bore the following notation:

This document contains proprietary data licensed to the U. S. Government by Ford Aerospace & Communications Corporation and/or Machine Tool Works, Oerlikon-Buhrle Ltd. under U. S. Army license contract DAAA09-75-C-2049 or -2050 and modifications thereto. And, except as noted below, is to be used only in connection with development, procurement, manufacture, inspection or maintenance of 25mm guns or 25mm ammunition by or for the U.S. Government.

Use of this document by others than the U. S. Government and foreign governments shall be limited to responding to U. S. Government solicitations or fulfilling U. S. Government contractual obligations.

One clear implication of this notation is that the TDP

cannot be characterized as a description of the version of Bushmaster ammunition designed by Oerlikon alone, but contains at least some input from Ford. In fact, it is not entirely clear from the notation that the TDP included any Oerlikon information. Nevertheless, Oerlikon asserts that these events gave rise to a contract (presumably an implied contract) between Aerojet and the Army and that Oerlikon is a third party beneficiary under that contract with respect to the use of some information in the TDP (A. 237, para. 8 of Oerlikon's counter-claims.)

Aerojet developed its Bushmaster-type ammunition complying with the Army's requirements (A. 246, 472-475). It is Aerojet's position, however, that it made no use of any "proprietary" information, i.e., trade secrets, from the TDP, using at most only publicly available information from that source.(A.244-251)

The United States Army required that Aerojet prove that its Bushmaster-type ammunition was "interoperable with and could be successfully fired from [Oerlikon's] . . . KBA-B02 Cannon . . . For this purpose, in 1981 Aerojet . . . purchased the . . . cannon and 1600 rounds . . . of ammunition" from Oerlikon" (A. 433, paras. 12-13 of Oerlikon's declaration of its manager Heinrich Meier). Aerojet's position is that these "Oerlikon" rounds are different from the "Ford/Oerlikon" rounds that are the subject of the TDP.

The purchase order form (A. 402-405) relating to the 1981 purchase by Aerojet from Oerlikon incorporated by reference

a document entitled "General Conditions of Supply "(A. 413-421), hereinafter the "Conditions", which contains an arbitration clause, as follows:

10.2 All disputes arising in connection with the present contract shall be finally settled by arbitration. (emphasis added)

These "Conditions", were prepared by Oerlikon and were not separately executed (A. 400-401, 406-407 and 413-421).

Neither the "Conditions" nor any of the other documents forming part of the 1981 purchase agreement (A. 402-405 and 407) refer to any other relationship between Oerlikon and Aerojet. There is no reference to the TDP or the allegedly implied contract between Aerojet and the Army. The only reference to Oerlikon's patents in these documents is paragraph 11 of the "Conditions" (A. 420), which is solely concerned with the goods sold to Aerojet in 1981 and reads in its entirety as follows:

"11. Patents

11.1 Defense and settlement of any legal action alleging patent infringement taken against the Buyer arising from the use of the Seller's products purchased under this contract will be the responsibility of the Seller" (emphasis supplied)

The "Conditions" also contain paragraph 1.5 (A. 414-415), which we reproduce here only because of the significance Oerlikon attaches to it.



"1.5 The Seller's data will be handled on a proprietary basis. Any data relating to the interface, installation, system assembly or operating and maintenance derived by the Buyer from the material or data supplied may be furnished to the U.S. Government only to the extent required by any applicable requirement of any Contract between Buyer and the U.S. Government, but will not be furnished to third parties without the Seller's prior written consent. Subject to U.S. Government approval, if such approval is required by law or applicable contract, the Seller shall be supplied with all such derived data. The material supplied cannot be resold or given away to third parties, except for delivery to the U.S. Government, where applicable, in accordance with the applicable end use certificate."

As discussed below, it is Aerojet's position that the word "data" as used in this paragraph refers only to that data that relates to the 1981 purchase, not the TDP and not to Oerlikon's patent rights.

Oerlikon raised no objection to Aerojet's subsequent sales of Bushmaster-type ammunition to the United States Army, but in May of 1986 it wrote to Aerojet objecting to Aerojet's



licensing and sale of Bushmaster-type ammunition in Spain. In this letter (A. 422-423), Oerlikon set forth in detail its charge that Aerojet had violated Oerlikon's alleged rights in connection with the TDP. Oerlikon further charged Aerojet with infringement of its patents relating to Bushmaster ammunition (A. 422-423). Oerlikon also wrote to third parties, Aerojet alleges, asserting violations by Aerojet of Oerlikon's supposed rights relating to the TDP, these third parties including Aerojet's Spanish licensee and the U.S. and Spanish Armies (A. 87, paras. 8-9 of amended complaint). Oerlikon sent an additional cease and desist letter to Aerojet as late as December of 1986 (A. 424). No mention was made in this letter of any rights relating to the 1981 purchase or the "Conditions".

On January 7, 1987 (A. 76), Aerojet commenced this action against Oerlikon, seeking a declaratory judgment that it was free to sell and license its Bushmaster ammunition as it chose. Aerojet also charged Oerlikon with unfair competition and interference with prospective economic advantage in the form of misrepresentations that Aerojet's ammunition is based on trade secrets misappropriated from Oerlikon (A. 85-90). Oerlikon's Swiss counsel knew, when the complaint was filed, that it was the practice of Oerlikon, when making agreements with parties in other countries, to insist upon a choice of forum clause calling for arbitration before the International Chamber of Commerce or litigation before the courts of a specified foreign country. (A. 465-468).

Oerlikon responded to the complaint by moving in February of 1987 under F.R.Civ.P. 12(b)(2) and (5), to quash service and dismiss for lack of personal jurisdiction (A. 86). It did not assert any right to arbitration, nor did it make any reference to the 1981 purchase agreement or any contractual right affecting the choice of forum. The District Court then limited discovery to the issues raised by Oerlikon's motion (A. 211 and 212-225, Tr. 1-14).

It was Oerlikon's intention, not disclosed to Aerojet or the Court, however, to assert that Aerojet had violated the restrictions on the use of information allegedly gained as a result of the 1981 purchase as well as the TDP. By March of 1987, at the latest, it had decided to assert the choice of forum clause found in the 1981 "Conditions". On March 27, 1987, Oerlikon wrote (A. 425-428) to the United States Army, detailing Aerojet's alleged violations of those "Conditions" and stating that it was ". . . proceeding to commence an action [against Aerojet] in Zurich. . . ." Meanwhile it continued to press the case in the District Court, proceeding with virogonous discovery, serving interrogatories, requests for documents, and requests for admissions. (A. 95-108 and 114-149). It also noticed and took the deposition of Richard Knapp, Aerojet's Vice President in charge of foreign military sales (A. 154), all ostensibly for the purpose of supporting Oerlinkon's position

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\* Commencing an action in Zurich was consistent with a version of the "Conditions" that Oerlikon was later to assert as the "Conditions, as explained below.

on jurisdiction.

The expense and burden imposed on Aerojet in preparing to respond to Oerlikon's 12(b) motion was increased substantially because of Oerlikon's intransigence in the face of its discovery obligations. The District Court ultimately found that Oerlikon was "in clear and unexcused violation of this Court's discovery order of June 8, 1987." (A. 150, para. 1) The Court also found that Oerlikon "presented no substantial mitigating circumstances to justify or excuse Defendant's non-compliance with the Court's order". (A. 152, para. 8). Sanctions were imposed. (A. 152, paras. 8-9)). The Court later found it necessary to warn Oerlikon again concerning its conduct in discovery and threatened "even more drastic sanctions, i.e. the entry of Defendant's default in the case" (A. 156, para. 1).

While discovery was taking place, Oerlikon took affirmative steps (not known at the time and not the subject of the Court's admonitions) to conceal its intention to assert the 1981 purchase agreement and the choice of forum clause it contains. Aerojet had made the following document request:

"Request No. 48

All documents that contain, comment upon or refer to any contractual obligation or other duty on the part of Plaintiff with respect to alleged trade secrets of Defendants or either of them that pertain to 25 mm ammunition." (A. 93)



Instead of forthrightly producing and identifying the documents relating to the 1981 purchase, and indeed the March 27 letter to the Army, thus informing Aerojet that Oerlikon was asserting the 1981 purchase agreement and the "Conditions" to support its allegations of trade secret misappropriation, Oerlikon responded as follows:

"48. Defendants object to production of any documents on the following grounds: lack of relevancy to the issues of sufficiency of service or personal jurisdiction; attorney-client privilege; trade secret privilege; secrecy laws."  
(emphasis supplied, A. 112)

Oerlikon was thus able to conduct discovery on the merits while Aerojet could not know that Oerlikon intended to later assert the 1981 purchase agreement and use it to force a change of forum.

On July 10, 1987, more than six months after the Complaint was filed, Oerlikon moved to dismiss based on the choice of forum clause in the "Conditions" relating to the 1981 purchase (A. 412). This was Aerojet's first indication that the 1981 purchase was in any way involved in the present controversy.

Oerlikon attached to this motion a version of the "Conditions" (A. 408-412) calling for litigation in Zurich and its agent swore unequivocally that the "Conditions" were part of the 1981 contract. (A. 434, para. 14). On July 29, 1987, however, Oerlikon supplemented its still pending motion,



advancing a second version of the "Condition," calling for arbitration in London (A. 413-421). Although there is conflicting evidence as to which "Conditions" were incorporated in the 1981 purchase agreement, Aerojet, for purposes of this appeal, does not dispute the authenticity of the "Conditions" now asserted by Oerlikon.

In September of 1987, after nine months of hard fought litigation, Oerlikon's jurisdiction and venue motions were denied (A. 206-210). On March 11, 1988, when the case was fourteen months old, the District Court granted Oerlikon's motion and stayed this proceeding pending the outcome of arbitration in London. (A. 1-4). Oerlikon had still done nothing to commence an arbitration. It finally did so by filing a Request for Arbitration with the International Chamber of Commerce on April 7, 1988. (A. 476-537). It then requested the appointment of a panel of three arbitrators instead of one (A. 478, para. 3), thus setting the stage for a substantially more lengthy proceeding.\* The International Chamber of Commerce is still involved in the appointment of arbitrators, and there has been no proceedings on the merits. (A. 629-632).

#### SUMMARY OF ARGUMENT

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The decision of the District Court is to be reviewed de novo.

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\* See Aerojet's opposition to Oerlikon's motion to dismiss this appeal, pp. 7, 16-17.

Oerlikon has waived its right to arbitrate any part of this dispute because it did not request arbitration in a timely manner, waiting six months before it raised the issue. Not only is Oerlikon charged with knowledge of the arbitration clause from the inception of the lawsuit, but it was actually aware, at the least, that these were "Conditions" containing a choice of forum clause. It quickly formed an intention to assert rights under those "Conditions", which it revealed to third parties, but concealed from Aerojet and the court. It forced Aerojet to spend nine months litigating the issues of jurisdiction and service in the face of its obstreperous and dilatory tactics, only to try to have these issues rendered moot by demanding arbitration. Because of the nature of Aerojet's complaint, only injunctive relief being truly effective, Aerojet is severely prejudiced not only by the expense and disruption of the litigation but by Oerlikon's delay, although such prejudice is not required to establish waiver under the majority rule.

If the Court does not find a waiver, the arbitration should be limited to the trade secrets allegedly obtained by Aerojet as a result of the 1981 purchase. The express provisions of the "Conditions", particularly the words "present contract", clearly prevent the arbitration clause from being expanded to embrace rights of Oerlikon as a third party beneficiary of an alleged earlier contract between Aerojet and the U.S. Army. To apply the arbitration clause to a non-contractual patent infringement dispute is to ignore the words of the agreement completely.

As in any matter of contract interpretation, the intention of the parties is controlling. If these parties had meant to include in the arbitration clause matters so far removed from the purchase order to which it was attached, there would be some clear and express indication to that effect in the "Conditions", which are detailed and obviously were carefully drafted. Moreover, the "Conditions" were drafted by Oerlikon and must be construed against Oerlikon.

#### ARGUMENT

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I. THE LAW OF THIS CIRCUIT GOVERNS THE QUESTIONS  
OF WHETHER AN ARBITRATION CLAUSE ENCOMPASSES  
PATENT INFRINGEMENT ISSUES AND WHETHER ANY  
RIGHT TO ARBITRATION HAS BEEN WAIVED

The controlling statute with respect to any arbitration of patent infringement disputes is 35 U.S.C. 294.\* This section provides that a contract "requiring arbitration of any dispute relating to patent validity or infringement ... [is]... valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract ..." Thus, Oerlikon can prevail only if the arbitration clause in question is one that "requires arbitration" of such a dispute

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\* In non-patent cases, arbitration is governed by Title 9 of the United States Code, insofar as federal law is concerned. However, §294(b) provides that Title 9 controls in patent cases only to the extent that it is "not inconsistent" with §294. Accordingly, §294 controls here.



within the meaning of the statute. Similarly, the question of waiver ultimately hinges on the precise meaning of the broad statutory phrase "... grounds that exist in law or equity for revocation of a contract ..."

It is well settled that this Court applies its own law when "the question clearly implicates the jurisprudential responsibilities of this court in a field of law within its exclusive jurisdiction, i.e., patent law ..." Gardco Mfg. Inc. v. Herst Lighting Co., 820 F.2d 1209, 1212, 2 U.S.P.Q. 2d. 2015, 2018, (Fed.Cir. 1987). The interpretation of Section 294 of the Patent Statute is clearly within that jurisdiction and, in fact, cannot arise in any non-patent context. This case cannot, conversely, be said to involve only procedural matters that are not unique to patent issues. Sun Studs, Inc. v. Applied Theory Assoc., Inc., 772 F.2d 1557, 1561, 227 U.S.P.Q. 81, 83 (Fed. Cir. 1985). Even the issue of waiver, while procedural, is unique to patent cases because it requires an interpretation of Section 294.

## II. OERLIKON HAS WAIVED ANY RIGHT TO ARBITRATION

### (a) The Issue Of Waiver Is Reviewable De Novo

The waiver issue turns on whether the undisputed facts of Oerlikon's pre-trial participation in the litigation constitute a waiver of arbitration. This issue is, therefore, one of law which is reviewable de novo. Fisher v. A.G. Becker Paribas, Inc., 791 F.2d 691, 693 (9th Cir. 1986).



(b) The Law Of Waiver

The only precedent in this Circuit dealing with waiver of an asserted right to arbitration is Rhone-Poulenc Specialites Chimiques v. SCM Corp., 769 F.2d 1569, 226 U.S.P.Q. 873 (Fed. Cir. 1985). However, that case provides little guidance here since it deals with a dissimilar situation in which the alleged waiver took place before suit was filed. We must therefore look for guidance to precedents in other circuits dealing generally with the question of waiver. However, precedents of the Ninth Circuit, where this case arose, are of no more significance than those of other circuits.

It has been established that "the right to arbitration, like any contract right, can be waived". National Foundation for Cancer Research v. A. G. Edwards & Sons, Inc., 821 F.2d 772, 774 (D.C. Cir. 1987). Moreover, the question of whether there has been a waiver is a question of law to be reviewed de novo on appeal. National Found. for Cancer Res., supra, and Miller Brewing Co. v. Fort Worth Distributing Co., 781 F.2d 494, 496 (5th Cir. 1986).

(c) Active Participation In A Lawsuit Or Other  
Action Inconsistent With The Later Assertion  
Of A Right To Arbitrate Constitutes Waiver

It is the majority rule that a right to arbitration is waived once "a party actively participates in a lawsuit or takes other action inconsistent with that right. Miller Brewing Co., supra, at 497, citing Cornell & Co. v. Barber & Ross Co., 360

F.2d 512, 513, (D.C. Cir. 1966) . See also In re Mercury Construction Corp., 656 F.2d 933, 939 (4th Cir. 1981); Midwest Window Systems, Inc. v. Amcor Ind., Inc., 630 F.2d 535, 536, (7th Cir. 1980); N & D Fashions, Inc. v. DHJ Industries, Inc., 548 F.2d 722, 728 (8th Cir. 1977) and Cornell, supra at 513.

Oerlikon's filing of the Rule 12(b) motion and the subsequent pursuit of discovery within limits set by the District Court, properly directed only to issues of no importance if there were to be arbitration, is conduct inconsistent with an intent to demand arbitration. Moreover, it is hard to imagine conduct more inconsistent with the assertion of any choice of forum rights based on the "Conditions" when compared to Oerlikon's characterization of those "Conditions" as lacking relevancy when Aerojet formally requested in discovery all documents that contain or refer to the "contractual obligations" on which Oerlikon bases its trade secret allegations.

There can be no doubt that Oerlikon has also met the requirement of active participation in the lawsuit. Not only did Oerlikon participate, but it took control of the lawsuit through its Rule 12(b) motion, and limited discovery to the issues it chose to raise, i.e., jurisdiction and service, until September of 1987, when the case was nine months old. Thus by filing its 12(b) motion, and engaging in extensive discovery relating to that motion Oerlikon waived any right to arbitration.

(d) Aerojet Should Not Be Required To  
Prove Prejudice To Establish Waiver

Oerlikon argued below that Aerojet must prove that prejudice flowed from Oerlikon's delay in asserting a right to arbitrate. It has been expressly held, however, that a showing of prejudice is not required. See National Foundation For Cancer Res., supra, at 777. The majority rule cases cited above do not include prejudice as an element of waiver. Other cases, taking essentially the same view, hold that prejudice is required to establish waiver, but that the cost and expense of participating in unnecessary judicial proceedings inherently constitutes such prejudice, dispensing with the need for any further showing. As stated in E. C. Ernst, Inc. v. Manhattan Const. Co. of Tex., 559 F.2d 268, 269 (5th Cir. 1977), "Substantially invoking the litigation machinery qualifies as the kind of prejudice [to the opponent] that is the essence of waiver." See also Miller Brewing Co. v. Ft. Worth Dist. Co., 781 F.2d 494, 497 (5th Cir. 1986)\* and Midwest Window Systems, Inc. v. Amcor Industries, Inc., 630 F.2d 535, 537 (7th Cir. 1980).

We urge the Court to adopt the above majority rule. If a party does not intend to proceed in the judicial forum, it is in the interest of everyone, in the absence of some ulterior

\* As to Fifth Circuit precedent, compare Valero Refining, Inc. v. M/T Lauberhorn, 813 F.2d 60 (5th Cir. 1987), holding that a waiver should not be "lightly inferred without some showing of prejudice". Id. at 66. In that case, however, it was argued that the defendant had waived its right to arbitrate by not preventing the plaintiff from taking the defendant's deposition. The defendant had however, in sharp contradistinction to this case, stated its intention to seek arbitration at the outset.



motive, that he so state immediately. Otherwise the resources of the parties and the Courts are inevitably wasted and needless uncertainty is injected into commercial cases. A rule requiring that a demand for arbitration be made promptly invites an analogy to Rule 12(b), under which certain defenses, such as lack of personal jurisdiction and venue, must be raised immediately or waived, even if the facts are not known to the waiving party.

(e) The Presence Of Prejudice Is An Added Reason  
Compelling A Finding Of Waiver And Is Required  
Under The Minority Rule

Where prejudice is shown, the courts have been particularly inclined to find waiver. As stated in National Foundation for Cancer Res., supra, at 777:

"... a court may consider prejudice to the objecting party as a relevant factor among the circumstances that the court examines in deciding whether the moving party has taken action inconsistent with the agreement to arbitrate ..."

See also Ohio-Sealy Mattress Manufacturing Co., v. Kaplan et al, 712 F.2d 270, 273 (7th Cir. 1983) and Jones Motor Co., Inc. v. Chauffeurs, Teamsters & Helpers Local Union No. 633 of New Hampshire, 671 F.2d 38, 44 (1st Cir. 1982) cert. den. 459 U.S. 943, 103 S.Ct. 257 (1982).



The Second, Third and Ninth Circuits, following a minority rule, apply a somewhat stricter standard in determining whether there has been a waiver, a showing of prejudice to the party opposing arbitration being required. ATSA of Calif., Inc. v. Continental Ins. Co. et al., 702 F.2d 172, 175 (9th Cir. 1983), Gavlik Construction Co. v. H. F. Campbell Co. et al., 526 F.2d 777, 783 (3rd Cir. 1975) and Carcich v. Rederi A/B Nordie, 389 F.2d 692, 696 (2d Cir. 1968). However even in the Second Circuit, prejudice is not a requirement where the basis for the waiver is a statement during the course of the litigation that is inconsistent with the arbitration demand. Gilmore v. Shearson/American Express, Inc., 811 F.2d 108, 113 (2d Cir. 1987). In Gilmore, the defendant had withdrawn an earlier motion to compel arbitration; in this case Oerlikon had earlier represented that documents relating to the 1981 purchase were irrelevant and refused to produce them. The other circuits following the minority rule have not considered this form of waiver.

(f) Aerojet Has Been Prejudiced By Oerlikon's Delay

In Raising The Issue Of Arbitration

That Aerojet was prejudiced by Oerlikon's delay in demanding arbitration is apparent from the nature of the case. Aerojet is attempting to obtain a declaration that it is free to compete with Oerlikon in foreign markets, and it seeks an injunction against unlawful interference with its sales efforts (A. 85-90). Obviously, it will be very difficult to prove and

quantify unfair competition damages and it is, therefore, imperative that unlawful conduct be terminated as soon as possible by injunctive relief. See Camel Hair and Cashmere Institute, Inc. v. Associated Dry Goods Corp., 799 F.2d 6, 15 (1st Cir. 1986). Aerojet is severely prejudiced by a six month delay in raising the question of whether the District Court is the proper forum.

Aerojet is further prejudiced by having been compelled to spend time and money on intensive litigation of issues that would be rendered moot if the case proceeded to arbitration. When discovery was limited (until September of 1987) to the issues raised by Oerlikon's first jurisdictional motion, Aerojet responded to numerous requests to admit, interrogatories and requests for documents and produced a high ranking marketing executive for examination by Oerlikon on competitively sensitive subjects. The unnecessary expense and the prejudice to Aerojet resulting from the conduct of this phase of the case was greatly increased by Oerlikon's intransigence in refusing to provide discovery on the jurisdictional issues it had selectively raised. Having forced Aerojet to proceed with litigation for nine months and overcome Oerlikon's obstreperous conduct in discovery to establish the jurisdiction of the District Court, Oerlikon should not later be allowed to abandon that forum. Moreover, complex discovery orders (A. 252-269) obtained from the District Court at considerable expense after jurisdiction was established would have no value if the parties were to begin again in arbitration.

In Cornell & Co. v. Barber & Ross Co., 360 F.2d 512 (D.C. Cir. 1966), prejudice was found based on participation in the litigation to the same or lesser extent that Oerlikon participated here.\* In the words of that court, waiver occurred when the defendant:

"(1) moved for a transfer of venue to the Eastern District of Pennsylvania, (2) filed an answer to appellee's complaint and a counterclaim, and (3) filed notice of depositions, took the deposition of an official of appellee, and procured the production of various records and documents." Id. at 513.

As in the Cornell case, Aerojet has been prejudiced here and there has been a waiver.

(g) Oerlikon Is Charged With Knowledge Of The Agreement And The Arbitration Clause

Oerlikon argued below that its failure to raise the arbitration issue sooner should be excused because it was at first unaware of the arbitration clause to which it is a

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\*It is clear from National Found. For Cancer Research, supra, at 777, that the D.C. Circuit, which decided Cornell does not require a showing of prejudice. Nevertheless, Cornell contains an enlightening exposition of why prejudice does occur in the present circumstances.

party. However, this argument must fail as a matter of law because it is charged with that knowledge from the inception of the lawsuit. See Cornell, supra.

Moreover, Oerlikon's counsel knew from the beginning that it was Oerlikon's practice to insist upon choice for forum clauses in contracts such as this (A. 465-468). Oerlikon's own letter of March 27, 1987 (A. 425-428) shows that at that time, at the very latest, it was aware of and secretly intended to rely on the "Conditions". If Oerlikon had asserted the "Conditions" and a choice of forum clause therein in a timely manner instead of waiting until July, the issue now presented would have been ruled on by the District Court long before March of 1988 when the case was fourteen months old. Moreover, Aerojet would have had the opportunity to agree to the change of forum and avoid litigation of the jurisdictional dispute if Oerlikon had simply given notice that it was invoking the "Conditions". Instead Oerlikon chose to conceal its position.

If there was any mistake on Oerlikon's part as to the choice of forum clause, it remained uncorrected only because of Oerlikon's own concealment of its reliance on and intention to assert the "Conditions". Oerlikon is therefore in a poor position to ask for an exception to the rule that it is presumed to know the contents of its own agreement. Moreover, this case demonstrates dramatically the need to impute to the parties knowledge of their own arbitration agreement. No litigant should be permitted to alternately swear that one agreement and



then another is genuine and contains the controlling choice-of-forum clause.\* If the arbitration clause is important to the party asserting it, rather than a procedural ploy, that party will know what the clause is.

III. THE DISTRICT COURT ERRED IN INTERPRETATING THE ARBITRATION CLAUSE TO COVER DISPUTES OTHER THAN OERLIKON'S COUNTERCLAIMS FOR BREACH OF THE 1981 PURCHASE AND FOR MISAPPROPRIATION OF TRADE SECRETS SPECIFIC TO THAT PURCHASE

(a) Interpretation Of The Arbitration Clause Should Be Reviewed De Novo

A determination of the extent to which an action falls within an arbitration clause, like the interpretation of any contractual provision, is subject to two standards of review. Marchese v. Shearson Hayden Stone, Inc., 734 F.2d 414, 417-419 (9th Cir. 1984). The District Court's analysis of the contractual language and its application of the principles of contract interpretation are matters of law that are reviewable de novo. Associated Plumbing & Mechanical Contractors of Sacramento, Inc. v. Local Union No. 447, United Association of

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\* Where a choice-of-forum clause calls for litigation in other courts rather than arbitration, it has been held that a motion to dismiss based on that clause is a venue motion under Rule 12(b)(3) and must be made early or waived. Avant Petroleum, Inc. v. Banque Paribas et al., 652 F. Supp. 542, 545 (S.D.N.Y. 1987). An arbitration clause is not conceptually different and a similar rule is just and appropriate.

Journeyman and Apprentices of the Plumbing and Pipe Fitting Industry, 811 F.2d 480, 482 (9th Cir. 1987). However, any factual findings of the District Court "concerning what the parties said and did" are reviewed under the clearly erroneous standard. Marchese, supra, at 417 (9th Cir. 1984). Here, the District Court did not make any factual findings of this nature that are disputed and, therefore, only de novo review is appropriate.

(b) Analysis Of The Arbitration Clause Depends Upon Traditional Rules Of Contract Law

Oerlikon's alleged right to arbitration is strictly a matter of contract, and a party cannot be compelled to arbitrate any dispute it has not agreed to arbitrate. Mediterranean Enterprises, Inc. v. Ssangyong Corp., 708 F.2d 1458, 1463 (9th Cir. 1983). Accordingly, it is necessary to determine (1) the scope of the arbitration clause, and (2) which, if any, claims and counterclaims are within that scope. Id. 1463-1464. This question of contract interpretation is a matter of federal substantive law. Id. 1463.

The proper focus of the inquiry is thus "whether the parties intended to require arbitration" of all the disputes sub judice. Associated Plumbing, supra, at 482 (9th Cir. 1987). In deciding this question, a court "must apply the traditional rule of contract interpretation favoring judicial dispute resolution, determining whether 'the intention of parties to submit their contractual disputes to [arbitration was] made manifest by plain

language.'" Id. at 482, citing United States v. Moorman, 338 U.S. 457, 462, 70 S.Ct. 288, 291, 94 L.Ed. 256 (1950)(internal quotation marks and brackets in original). Moreover, questions of contract interpretation are to be resolved against the party who authored the writing, in this case Oerlikon. Interpetrol Bermuda Limited v. Kaiser Aluminum International Corp., 719 F.2d 992, 998 (9th Cir. 1983).

(c) The District Court Erred As A Matter  
Of Law In Construing The Scope Of The  
Arbitration Clause

(i) The District Court Disregarded the  
Plain Meaning of the Words "Present  
Contract" in the Arbitration Clause

The arbitration clause in the 1981 purchase agreement provides, in pertinent part, that "all disputes arising in connection with the present contract shall be finally settled by arbitration" (A. 419, para. 10.2) (Emphasis added). The District Court concluded that this phrase was broad enough to cover a different contract (i.e. the contract allegedly implied between Aerojet and the U.S. Army), and the dispute as to infringement of Oerlikon's patents (A.17-22, 42-43 and 62-63; Tr.14-19, 39-40 and 59-60). On that basis, the court held that the arbitration clause swept in all the parties claims and counterclaims. Id. This decision cannot be reconciled with the basic rules of contract interpretation.



"A primary rule of [contractual] interpretation is that '[t]he common or normal meaning of language will be given to the words of a contract unless circumstances show that in a particular case a special meaning should be attached to it.'" Hunt Wesson Foods, Inc. v. Supreme Oil Co., 817 F.2d 75, 77 (9th Cir. 1987). The plain meaning here is that the words "present contract" expressly limit the arbitration clause to disputes that are specific to the 1981 purchase. The phrase does not encompass other contracts or other disputes. However, the District Court seems to have disregarded the words "present contract". It interpreted the clause as encompassing a contract preceding the 1981 purchase and completely different in subject matter, relating to the delivery of the TDP to Aerojet by the U.S. Army so that Aerojet could become a bidder to supply the Army with ammunition. Most suprisingly, the contract relating to the TDP that the District Court's ruling would bring within the words "present contract" is not even a contract between Aerojet and Oerlikon, the parties to the arbitration clause. It is instead a contract under which Oerlikon claims rights as a third party beneficiary.

But the District Court did not stop there. It went on to rule that the arbitration clause encompasses charges of patent infringement, a dispute as to which Oerlikon purports to assert rights arising under the Patent Act (35 U.S.C. 271 et seq.) without regard to any contract. One need only read Oerlikon's counterclaim (A. 241-242) to see that it cannot possibly fit within the phrase "arising in connection with the present



contract", i.e., the 1981 purchase agreement.

The contract as a whole clearly does not support the interpretation the arbitration clause has been given, and there is no evidence to justify a deviation from the unambiguous words of the contract. To do so was error, since a court may not re-draft an arbitration clause to foist upon the parties an obligation to arbitrate to which they never assented. Farkar Co. v. R.A. Hanson Disc. Ltd., 583 F.2d 68, 71-72 (2d Cir. 1978).

(ii) The District Court Erred In Its  
Construction of Paragraph 1.5  
and The Word "Data".

If the arbitration clause relating to the "present contract" is somehow to be stretched to include the dispute relating to the TDP (received by Aerojet from the Army long before the 1981 purchase agreement), it is necessary to identify some term in the purchase agreement that broadens its scope enormously. The District Court concluded that it had found such a term in the word "data" used in paragraph 1.5\* of the

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\*"1.5 The Seller's data will be handled on a proprietary basis. Any data relating to the interface, installation, system assembly or operating and maintenance derived by the Buyer from the material or data supplied may be furnished to the U.S. Government only to the extent required by any applicable requirement of any Contract between Buyer and the U.S. Government, but will not be furnished to third parties without the Seller's prior written consent. Subject to U.S. Government approval, if such approval is required by law or applicable contract, the Seller shall be supplied with all such derived data. The material supplied cannot be resold or given away to third parties, except for delivery to the U.S. Government, where applicable, in accordance with the applicable end use certificate."

"Conditions" attached to the purchase order (A. 403). We submit, however, that the word "data" is capable of only one interpretation here. That is, it refers to the data Aerojet would receive in connection with the 1981 purchase itself, not the TDP and certainly not Oerlikon's patent rights.

The District Court, however, effectively construed the word "data" in Paragraph 1.5 of the "Conditions" to include all intellectual property rights of Oerlikon that affected Aerojet, (A. 29-34, 43-58; Tr.26-31, 40-55.) Thus, the court interpreted an unsigned attachment to a purchase order as a broad restructuring of the intellectual property rights of the parties, despite the fact that there was no reference anywhere in the documents relating to the 1981 purchase to any other relationship between the parties. It simply defies reason to believe that Aerojet and Oerlikon intended by the mere use of the word "data" to encompass all of this, but made no reference even vaguely to other matters.

Moreover, to construe the word "data" to encompass subsisting patent rights is, to say the least, peculiar.\* There is nothing in the documentation of the 1981 purchase, nor is there any other evidence to suggest that the word "data" has an unusual meaning here. Nevertheless it is a very broad

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\* Paragraph 11, the sole paragraph relating to patents, speaks only to an obligation on the part of Oerlikon to indemnify Aerojet for patent infringement with respect to the purchased goods (A. 420).

interpretation of the word "data", going far beyond the subject of the 1981 transaction, that is an essential lynch pin of the District Court's interpretation of the purchase agreement. Without thus stretching and expanding the word "data" to encompass the TDP and Oerlikon's alleged patent rights, the words "present contract" could not possibly be given a meaning that goes beyond the 1981 purchase and no other basis for such an interpretation has been suggested by Oerlikon or the District Court.

A highly expansive interpretation of the word "data" is even more clearly inappropriate when it is considered that issues of contract interpretation are to be resolved against Oerlikon, the author of the "Conditions" in question. Interpetrol Bermuda Limited v. Kaiser Aluminum International Corp., 719 F.2d 992, 998 (9th Cir. 1983). Taken in this context, the only proper interpretation of the word "data" is that it refers to data acquired by Aerojet in connection with the 1981 purchase, i.e., manuals and other written materials supplied to Oerlikon with the cannon and ammunition, and any information derived by Aerojet from that cannon and ammunition. (A. 402-403).

The District Court also seems not to have applied the rule that the party's intent must be gathered from the instrument as a whole. Alvin, Limited v. United States Postal Service, 816 F.2d 1562, 1565 (Fed. Cir. 1987); California Pacific Bank v. Small Business Administration, 557 F.2d 218, 223 (9th Cir. 1977). In ascertaining this intent, the proper



perspective is the situation and circumstances of the parties. Connecticut General Life Insurance Co. v. Craton, 405 F.2d 41, 46 (5th Cir. 1968). Thus, great weight should be given to the principle purpose of the contract in determining the probable intentions. Id. The obvious and stated purpose of the 1981 purchase was to enable Aerojet to demonstrate to the Army that its ammunition was interoperable in Oerlikon cannons. Oerlikon's own witness Mr. Meier stated this fact in his declaration (A. 434), and there is no language in the agreement or other evidence that suggests a different purpose. Moreover the fact that the "Conditions" were an unsigned attachment to a purchase order strongly suggests that they are intended to apply specifically to the subject of the purchase order, not third party rights under a different contract.

In determining the parties intent at the time the contract was executed, a Court may also look to the parties' subsequent conduct. Laborers Health and Welfare Trust Fund for Northern California v. Kaufman & Broad of Northern California, 707 F.2d 412, 418 (9th Cir. 1983). Here Oerlikon's two cease and desist letters to Aerojet (A. 422-424) charge misappropriation of trade secrets supposedly found in the TDP and patent infringement, without in any way referring to the 1981 purchase. If Oerlikon itself had thought that the 1981 purchase agreement governed these issues, surely that agreement would have been mentioned in the letters. Instead, however, the 1981 agreement was not mentioned until Oerlikon sought to change the forum.



The provisions of the 1981 purchase are also literally inconsistent with any construction of the word "data" to include patents, and a contract is to be interpreted in a manner that makes it internally consistent. Brobeck, Phleger and Harrison v. Telex Corp., 602 F.2d 866, 872 (9th Cir. 1979). Paragraph 1.5 declares that "Seller's data will be handled on a proprietary basis." This key sentence makes no sense if "data" means patent rights.

(d) The Expansive Reading Given The Arbitration Clause Imputes To The Parties An Intent That Is Irreconcilable With The Law As It Stood At The Time Of The Agreement

The law as it existed at the time of contracting is implied in every contract. Wood v. Lovett, 313 U.S. 362, 61 S.Ct. 983, 987, 85 L.Ed. 1404, (1940). See also, Beck Park Apartments v. United States Dept. of Housing and Urban Development, 695 F.2d 366, 370 n.5 (9th Cir. 1982). Consequently, the intent of the parties must be determined in light of that contemporary law. See Beck Park at 369-370 (9th Cir. 1982) and Home Building & Loan Association v. Blaisdell, 290 U.S. 398, 54 S.Ct. 231, 237 (1933) ("This principle embraces alike those which affect [a contract's] validity, construction, discharge and enforcement." Id. at 237) In 1981 the prevailing law was that agreements to arbitrate patent infringement claims were unenforceable per se in light of the overriding public interest in having invalid patents challenged in the courts. Beckman Instruments, Inc. v. Technical Development Corp., 433 F.2d 55,

63 (7th Cir. 1970) cert den. 402 U.S. 976, 91 S.Ct. 1199 (1971) See also N. V. Maatschappij Voor Industriële Waarden v. A. O. Smith Corp., 532 F.2d 874, 876, 190 U.S.P.Q. 385, 386 (2d Cir. 1976); Hanes Corp. v. Millard, 531 F.2d 585, 593, 189 U.S.P.Q. 331, 336-337 (D.C. Cir. 1976); Leesona Corp. v. Cotwool Manufacturing Corp., Judson Mills Division, 204 F.Supp. 141, 142, 134 U.S.P.Q. 24-25 (W.D.S.C. 1962) appeal dismissed without comment on ruling, 315 F.2d 538, 137 U.S.P.Q. 177 (4th Cir. 1962). See also Kamakazi Music Corp. v. Robbins Music Corp., 522 F.Supp. 125, 130, 214 U.S.P.Q. 149, 153 (S.D. N.Y. 1981); Babcock & Wilcox Co. v. Public Service Co. of Indiana, Inc., 193 U.S.P.Q. 161, 163 (S.D. Ind.1976); Zip Mfg. Co. and Zip Abrasive Co. v. Pep Mfg. Co., 7 U.S.P.Q. 62, 64 (D. Del. 1930).

The law was not changed until Congress amended the Patent Act in August of 1982 and added 35 U.S.C. 294, providing that:

"[a] contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract."

This section provides that it "shall take effect six months after enactment." An intent to arbitrate patent infringement disputes should not, therefore, be read into a 1981 agreement.

Moreover, at least as late as 1984, it was widely held (the Ninth Circuit included) that arbitration clauses should not be construed to compel arbitration of federal statutory claims absent an express provision to that effect. Marchese v. Shear-

son Hayden Stone, Inc. 734 F.2d 414, 419-421 (9th Cir. 1984). The source of this rule was the long standing recognition by the Supreme Court that "the resolution of statutory or constitutional issues is a primary responsibility of courts ..." Alexander v. Gardner-Denver Co., 415 U.S. 36, 57-58, 94 S.Ct. 1011, 1024, 39 L.Ed.2d 147 (1974). See also Barrentine v. Arkansas-Best Freight System, Inc., 450 U.S. 728, 101 S.Ct. 1437, 1446-1447, 67 L.Ed.2d 641 (1981). There is no express provision here for the arbitration of statutory patent claims.

Accordingly, the state of the law as to the meaning and permissible scope of the clause in question in 1981 cannot be reconciled with the conclusion that the parties intended by that clause to submit disputes relating to the TDP and Oerlikon's patents to arbitration. At most, the parties could have intended to arbitrate disputes relating to "data" obtained by Aerojet as the result of the 1981 purchase.

(e) The Arbitration Clause Cannot  
Be Transported From One Agreement  
To Another

A party may not ordinarily assert an arbitration clause contained in one agreement so as to compel arbitration of disputes that arise under a different agreement unless the agreement containing the arbitration clause incorporates the other agreement by reference or is an umbrella agreement which expressly embraces other transactions between the parties. Thus, in Seaboard Coast Line Railroad Co. v. Trailer Train Co., 690 F.2d 1343, 1349-1351 (11th Cir. 1982) and in Necchi v.



Necchi Sewing Machine Sales Corp., 348 F.2d 693, 697 (2d Cir. 1965), cert. den. 383 U.S. 909, 86 S.Ct. 892 (1966), the effect of the arbitration clauses were confined to the agreements in which they were found. In S.A. Mineracao Da Trindade-Semiti v. Utah International, Inc., 745 F.2d 190, 195, 196 (2d Cir. 1984), the agreement was clearly an umbrella agreement and the arbitration clause was therefore applied to the subordinate agreements.

The Necchi case is particularly in point. There a 1961 contract between the parties contained an arbitration clause. That clause was at least as broad as the clause sub judice, providing that "[A]ll matters, disputes or disagreements arising out of or in connection with this Agreement shall be finally settled" by arbitration. Id. at 695. The defendant sought to compel arbitration not only as to the 1961 agreement but as to a 1958 contract that did not contain an arbitration clause. Id. at 698. The District Court ordered arbitration as to both contracts. Id. at 697. The Second Circuit reversed as to the 1958 contract, stating that the "specific meaning of the arbitration clause of the 1961 Agreement . . . requires that the matter arise out of or in connection with that Agreement rather than the working relationship between the parties." Id. at 698. (Emphasis added).

Here, the District Court's error is more serious than that of the Necchi District Court. The District Court would not only compel arbitration of rights under an earlier and different



contract, but of rights Oerlikon asserts as a third party beneficiary under an alleged contract between different parties.\*

Unfair competition claims that arise from a contract separate and distinct from the contract containing the arbitration clause were held not arbitrable in Mediterranean, supra, at 1464. Thus, the Mediterranean court held that arbitration could not be compelled as to claims for inducement of breach of contract and conspiracy to induce breach of contract which arose from an agreement different from that having the arbitration clause. It would be squarely against the holding in Mediterranean to compel arbitration of Oerlikon's trade secrets counterclaims or Aerojet's unfair competition claims insofar as they relate to the TDP and the allegedly implied contract between Aerojet and the Army.

#### IV. THE DISTRICT COURT ABUSED ITS DISCRETION IN STAYING THIS ACTION PENDING COMPLETION OF ARBITRATION

The aspect of the District Court's order that stays an action pending completion of arbitration is reviewable for abuse of discretion. Alascom, Inc. v. ITT North Electric Co., 727 F.2d 1419, 1422 (9th Cir. 1984).

\* See also ATSA of California, Inc. v. Continental Insurance Co. et al., 702 F.2d 172, 176 (9th Cir. 1983), holding that the plaintiff could not invoke an arbitration contract it had with one defendant as a means for forcing a second defendant to arbitrate a separate contract with the plaintiff, even though both contracts arose from interrelated transactions.

An abuse of discretion exists when the reviewing court is left with a definite and firm conviction that the District Court committed a clear error of judgement or where no reasonable person could take the view adopted by the district court. Verdegaal Brothers, Inc. v. Union Oil Co. of California, 750 F.2d 947, 952 (Fed. Cir. 1984)(applying 9th Cir. law). An exercise of discretion based on an error of law also constitutes abuse of discretion. TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 898 (Fed. Cir. 1986).

The stay ordered by the District Court is clearly the result of two errors of law (1) the conclusion that Oerlikon had not waived its right to arbitration, and (2) the conclusion that the arbitration clause encompassed matters relating to the TDP and the charges of patent infringement. The entry of the order therefore constitutes an abuse of discretion. Insofar as the order compels arbitration, it is not an abuse of discretion, but a pure error of law.

#### CONCLUSION

This Court should rule that Oerlikon has waived any right to arbitration and remand the case to the District Court for the resolution of all matters raised by the pleadings. In the event that the Court does not find waiver, it should hold that the arbitration clause encompasses only disputes relating to any trade secrets obtained by Aerojet in connection with the 1981 purchase, i.e., the transaction represented by the purchase order to which the "Conditions" were attached. The case should

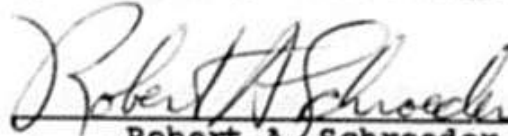
then be remanded to the District Court for the resolution of all disputes relating to other alleged trade secrets of Oerlikon and Oerlikon's charges of patent infringement.

Respectfully submitted,

PRETTY, SCHROEDER, BRUEGGEMANN & CLARK

Dated: August 23, 1988

By



Robert A. Schroeder  
Attorneys for Aerojet-General Corp.

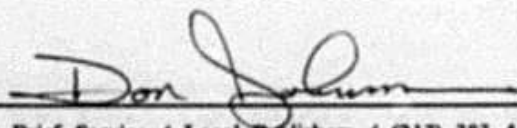
PROOF OF SERVICE BY MAIL

STATE OF CALIFORNIA            )  
                                  ) ss:  
COUNTY OF LOS ANGELES        )

I am a citizen of the United States and a resident of or employed in the City and County of Los Angeles; I am over the age of eighteen years and not a party to the within action; my business address is: 3550 Wilshire Boulevard, Suite 916, Los Angeles, California 90010. On this date, August 24, 1988, I served the within BRIEF FOR APPELLANT, in re: "Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle, Ltd.," In the United States Court of Appeals for the Federal Circuit, Appeal No. 88-1351, on the persons interested in said action by placing 2 true copies thereof enclosed in sealed envelopes with first-class postage fully prepaid, in the United States post office mail box at Los Angeles, California, addressed as follows:

JAY ZIEGLER  
BUCHALTER, NEMER, FIELDS & YOUNGER  
Suite 700  
700 South Flower Street  
Los Angeles, CA 90017

I certify (or declare) under penalty of perjury that the foregoing is true and correct. Executed on August 24, 1988, at Los Angeles, California.



D. JOHNSON