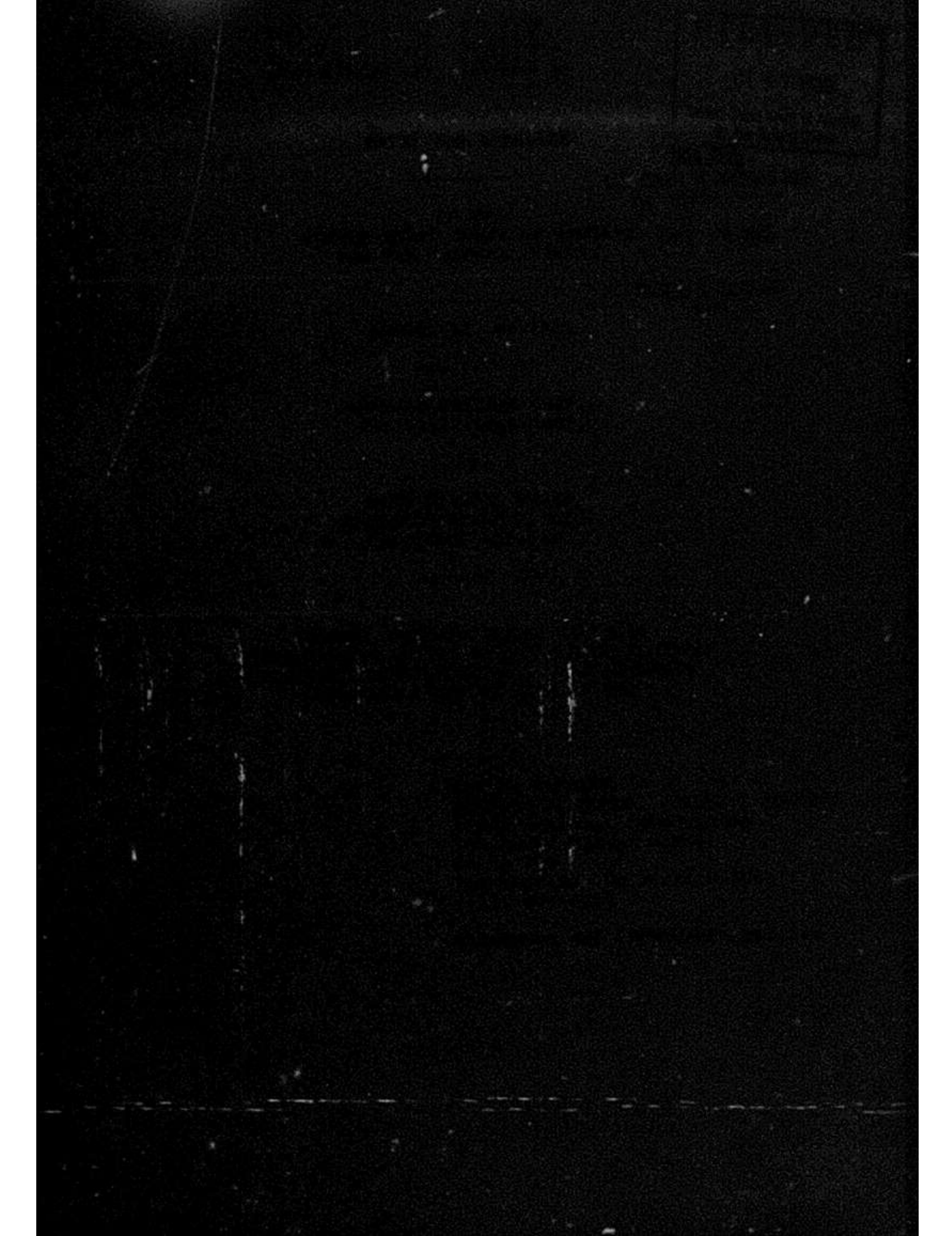


Appellee's Brief



BRIEF FOR APPELLEE

IN THE
UNITED STATE COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

APPEAL NO. 88-1351

AEROJET-GENERAL CORP.,
Plaintiff-Appellant,

vs.

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

JAY R. ZIEGLER
BUCHALTER, NEMER, FIELDS & YOUNGER
A Professional Corporation
700 South Flower Street
Suite 700
Los Angeles, California 90017
(213) 626-6700

Attorneys for Defendant-Appellee

TABLE OF CONTENTS

	<u>Page</u>
TABLE OF CONTENTS.....	i
TABLE OF AUTHORITIES.....	iii
CERTIFICATE OF INTEREST.....	vi
STATEMENT OF RELATED CASES.....	ix
STATEMENT OF THE ISSUES.....	1
STATEMENT OF THE CASE.....	2
The Nature Of The Case And The Course of Proceedings.....	2
Statement Of Facts.....	3
Facts Relevant To Waiver Issue.....	3
Facts Relevant To Scope Of Arbitration Provision Issue.....	7
SUMMARY OF ARGUMENT.....	12
ARGUMENT.....	14
I. THE LAW OF THE NINTH CIRCUIT GOVERNS THE ISSUES RELEVANT TO THIS APPEAL.....	14
II. THERE HAS BEEN NO WAIVER OF THE RIGHT TO ARBITRATION.....	16
A. The Standard Of Review.....	16
B. The Law Of Waiver.....	17
C. The Undisputed Facts Do Not Support A Finding Of Waiver.....	18
III. THE ARBITRATION PROVISION WAS CORRECTLY FOUND TO ENCOMPASS ALL CLAIMS AND COUNTERCLAIMS.....	23
A. The Standard Of Review.....	23
B. A Determination Of The Scope Of The Arbitration Provision Is Not Merely An Analysis Pursuant To Rules Of Contract Interpretation.....	23

TABLE OF CONTENTS

	<u>Page</u>
C. The Arbitration Clause Was Correctly Interpreted To Encompass All Claims Asserted By Both Parties.....	26
1. The Scope Of The Arbitration Clause Is Broad.....	27
2. All Claims Are Within The Scope Of This Arbitration Clause.....	27
IV. EVEN IF ONLY LESS THAN ALL OF THE CLAIMS ARE WITHIN THE SCOPE OF THE ARBITRATION PROVISION, THE COURT HAD DISCRETION TO STAY THE ENTIRE ACTION.....	37
CONCLUSION.....	39

TABLE OF AUTHORITIES

	<u>Page</u>
<u>ATSA of California, Inc. v. Continental Insurance Co.</u> , 702 F.2d 172 (9th Cir. 1983).....	22
<u>Anderson v. Bessemer City</u> , 470, U.S. 564, 84 L.Ed. 2d 518 105 S.Ct. 1504 (1985).....	17
<u>Associated Plumbing & Mechanical Contractors of Sacramento, Inc. v. Local Union No. 447, etc.</u> , 811 F.2d 480 (9th Cir. 1987).....	25
<u>Atari, Inc. v. JS&A Group, Inc.</u> , 747 F.2d 1422 (Fed. Cir. 1984).....	15
<u>Ballard Medical Products v. Wright</u> , 823 F.2d 527 (Fed. Cir. 1987).....	16
<u>Bendag v. Al Bolser's Tire Stores</u> , 750 F.2d 903 (Fed. Cir. 1984).....	15
<u>Christianson v. Colt Industries Operating Corp.</u> , 486 U.S. ___, 100 L.Ed.2d 811, 108 S.Ct. ___ (1988).....	1
<u>Cornell & Co. v. Barber & Ross Co.</u> , 360 F.2d 512 (D. C. Cir. 1966).....	19
<u>Fisher v. A. G. Becker Paribas, Inc.</u> , 791 F.2d 691 (9th Cir. 1986).....	17
<u>In re Kinoshita & Co.</u> , 287 F.2d 951 (2nd Cir. 1961).....	32
<u>Landis v. North American Co.</u> , 299 U.S. 248, 81 L.Ed. 153, 57 S.Ct. 163.....	38
<u>Layva v. Certified Grocers of California, Ltd.</u> , 593 F.2d 857 (9th Cir. 1979).....	38
<u>Mediterranean Enterprises v. Ssangyong Corp.</u> , 708 F.2d 1458 (9th Cir. 1983).....	25, 32 38
<u>Mitsubishi Motor Corp. v. Soler Chrysler-Plymouth</u> , 473 U.S. 614, 87 L.Ed.2d 444 (1985).....	18
<u>Moses H. Cone Memorial Hospital v. Mercury Construction Corp.</u> , 460 U.S. 1, 74 L.Ed.2d 765, 103 S.Ct. 927 (1983)....	24, 37
<u>Necchi v. Necchi Sewing Machine Sale Corp.</u> , 348 F.2d 693 (2nd Cir. 1965).....	32, 33

TABLE OF AUTHORITIES

	<u>Page</u>
<u>Pervel Industries, Inc., v. TM Wallcovering</u> , 657 F.Supp. 867 (S.D.N.Y. 1987).....	33
<u>Pitta v. Hotel Association of New York City, Inc.</u> , 806 F.2d 419 (2nd Cir.) 1986.....	27
<u>Prima Paint Corp. v. Flood & Conklin Mfg. Co.</u> , 388 U.S. 395, 18 L.Ed.2d 1270 87 S.Ct. 1801 (1967).....	27
<u>Rhone-Poulenc Specialities Chimiques v. SCM Corp.</u> , 769 F.2d 1569 (Fed. Cir. 1985).....	36
<u>S. A. Mineracao da Triandade-Samitri v. Utah International</u> , 745 F.2d 190 (2nd Cir. 1984).....	32
<u>Scherk v. Alberto-Culver</u> , 417 U.S. 506, 41 L.Ed.2d 270 (1974).....	18, 27,37
<u>Shearson/American Express, Inc. v. McMahon</u> , 482 U.S. _, 96 L.Ed.2d 185, 107 S.Ct. _ (1987).....	24
<u>Sun Studs, Inc. v. Applied Theory Associates, Inc.</u> , 772 F.2d 1557 (Fed. Cir. 1985).....	15
<u>The Bremen v. Zapata Off-Shore Co.</u> , 407 U.S. 1, 32 L.Ed.2d 513 (1972).....	18
<u>United States v. Moorman</u> , 338 U.S. 457, 94 L.Ed. 256 70 S.Ct. 288 (1950).....	25
<u>Warner & Swasey Co.v. Salvagnini Transferica</u> ,633 F.Supp. 1209 (W. D. N.Y. 1986).....	36
<u>Wilcox v. Ho-Wing Sit</u> , 586 F.Supp. 561 (N.D. Cal. 1984)....	38
<u>Woodward v. Sage Products, Inc.</u> , 818 F.2d 841 (Fed. Cir. 1987).....	15

STATUTES

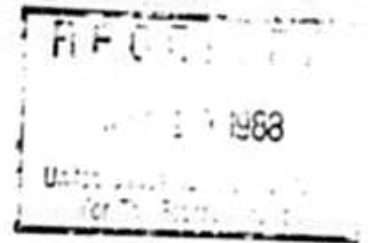
9 U.S.C. §1	23
15 U.S.C. §1125(a).....	3

STATUTES

28 U.S.C. § 1291.....	1
§ 1291.....	1
§ 1295.....	15
§ 1338(a).....	16
29 U.S.C. § 141.....	25
35 U.S.C. §294.....	16, 16

Federal Rules of Civil Procedure

Rule 12(b).....	3, 20
Rule 12(g).....	21
Rule 52(a).....	17



IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

AEROJET-GENERAL CORP.,

Plaintiff-
Appellant,

vs.

MACHINE TOOL WORKS,
OERLIKON-BUEHRLE LTD.,

Defendant-
Appellee.

Civil Action No. 88-1351

CERTIFICATE OF INTEREST

The undersigned counsel of record for MACHINE TOOL WORKS, OERLIKON-BUEHRLE LTD. (Defendant-Appellee) furnishes the following list in compliance with Rule 8:

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

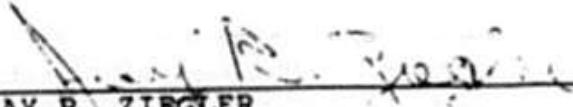
MACHINE TOOL WORKS, OERLIKON-BUEHRLE LTD.

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

(c) The parent of MACHINE TOOL WORKS, OERLIKON-BUEHRLE LTD. is Oerlikon Buehrle Holding Ltd.

(d) The names of the law firms, whose partners or associates have appeared for the above party in the lower court are: Buchalter, Nemer, Fields & Younger, A Professional Corporation and Lyon & Lyon. In this Court the additional firm of Locker, Greenberg & Brainin, P.C. may appear as of counsel for the party.

DATED: May 11, 1988.


JAY R. ZIEGLER
A Member of Buchalter, Nemer,
Fields & Younger
A Professional Corporation
Attorneys for Defendant-Appellee
Machine Tool Works, Oerlikon-
Buehrle, Ltd.

700 South Flower Street, Suite 700
Los Angeles, California 90017

CERTIFICATE OF SERVICE

I hereby certify that I caused the foregoing
CERTIFICATE OF INTEREST to be served this 16 day of May, 1988
via 1st-class mail to Plaintiff's attorneys of record as follows:

Robert A. Schroeder, Esq.
Pretty, Schroeder, Brueggeman
& Clark
444 South Flower Street
Suite 2000
Los Angeles, CA 90017


Barbara S. Garis

STATEMENT OF RELATED CASES

- (1) No other appeal in connection with the underlying civil action has previously been before this court or any other appellate court.

- (2) Appellee Machine Tool Works, Oerlikon-Buehrle, Ltd. ("Machine Tool") 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. However, the subject matter of this civil action is currently the subject of an arbitration proceeding, No. 6211/BGD, commenced by Machine Tool before the International Chamber of Commerce in London, England. The arbitrability of that subject matter is at issue in this appeal.

STATEMENT OF THE ISSUES

1. Does the Court of Appeals for the Federal Circuit have jurisdiction over this appeal? (While Machine Tool does not challenge the jurisdiction of this Court, it is mindful that such jurisdiction cannot be conferred by consent. The recent case of Christianson v. Colt Industries Operating Corp., 486 U.S. ___, 100 L.Ed.2d 811, 108 S.Ct. ___ (1988) does not appear to be dispositive of the issue here and, in fact, clouds the question by basing its holding on the "well pleaded complaint" rule.)

2. Is the order which is the subject of this appeal either a "final decision" of the District Court as defined in 28 U.S.C. §1291 or §1295 or an interlocutory decision within the scope of 28 U.S.C. §1292? (This issue is the subject of Machine Tool's motion to dismiss this appeal, which is now under submission.)

3. Did Machine Tool waive its right to arbitration by litigating the issues of the sufficiency of service of process and of personal jurisdiction before filing a motion to stay the action pending arbitration, which motion was filed before a hearing or decision on its motion to dismiss for insufficiency of service and lack of the personal jurisdiction and as soon as possible after Machine Tool had become aware of the arbitration provision in issue?

4. Does the arbitration provision in issue encompass all, or less than all, of the claims asserted by the parties?

5. Did the District Court abuse its discretion in staying the entire action pending the outcome of arbitration before the International Chamber of Commerce?

STATEMENT OF THE CASE

The Nature Of The Case And The Course Of Proceedings.

Machine Tool disagrees with Aerojet's statements on these subjects in the following respects.

The basic issue in the underlying action is whether or not Aerojet's licensing and sales activities with respect to certain Bushmaster 25mm ammunition directed to persons other than the United States Government violates Machine Tool's rights, contractual, patent and otherwise, with respect to that ammunition.

The counterclaims asserted by Machine Tool against Aerojet are not only for trade secret misappropriation and patent infringement, but also for breach of contract, unfair competition and false representation of goods.

Statement Of Facts

Facts Relevant To Waiver Issue

On January 7, 1987 Aerojet initiated this action by filing a Complaint against Machine Tool in the United States District Court for the Central District of California. On January 21, 1987 Aerojet filed an Amended Complaint adding Oerlikon-Buehrle Holding Ltd. ("Oerlikon Holding") as a defendant. (Appendix ("App.") 76).

The claims for relief in the Amended Complaint against both defendants were for unfair competition, interference with prospective advantage, false representation (based on the Lanham Act, 15 U.S.C. §1125(a)) and for declaratory judgment. Generally, Aerojet alleged that it and Machine Tool are direct competitors in the manufacture and sale of 25mm ammunition; that Aerojet entered into a contractual arrangement with a Spanish manufacturer whereby 25mm ammunition, alleged to be independently developed by Aerojet, is to be manufactured under license in Spain with royalties payable to Aerojet; and that Machine Tool has interfered with that arrangement by making allegedly false representations to third parties that Aerojet's 25mm ammunition embodies Machine Tool's trade secrets which Aerojet has misappropriated. (App. 85-90).

Following attempts by Aerojet to serve the Summons and Amended Complaint on them in the United States, Machine Tool and Oerlikon Holding, both Swiss corporations, filed a Rule 12(b) motion to dismiss for insufficiency of service of process and lack of personal jurisdiction on February 18, 1987. (App. 76). The motion was originally set for hearing on March 16, 1987, but

at the request of Aerojet, based on a desire to undertake discovery pertaining to the issues raised by that motion, the hearing was continued to April 27, 1987 by stipulation and then to August 24, 1987 upon Aerojet's ex parte application. (App. 76). Later, on the Court's own motion the hearing was continued to August 31st. (App. 77). During this entire period and until November 10, 1987, discovery was limited to the issues relevant to this motion and the subsequently filed supplemental motion to dismiss and the motion to stay pending arbitration, discussed below. (App. 80).

Both sides undertook discovery during this period of time, most of it initiated by Aerojet. Among other things, on February 13, 1987 Aerojet served a First Request for Production of Documents. (App. 95-98). In responding to this request for production Machine Tool in late March 1987 for the first time in connection with this dispute was reminded of the existence of a 1981 Aerojet-Machine Tool transaction and documents believed to pertain thereto. One such document which Machine Tool then believed was a part of that transaction was entitled "General Conditions of Supply" (App. 408-412) and contained a forum selection clause designating Zurich, Switzerland as the exclusive jurisdiction for resolution of disputes between the parties. On April 2, 1987 Machine Tool transmitted to Aerojet's attorneys copies of those documents, including the General Conditions of Supply containing the Swiss forum selection clause. (App. 726-728 (para. 4-7), 734-744, 746-748 (para. 3-9)).

This 1981 transaction between Aerojet and Machine Tool involved a purchase by Aerojet of a Machine Tool 25mm cannon and

1600 rounds of various types of Bushmaster 25mm ammunition manufactured by Machine Tool. (App. 433). After Machine Tool had satisfied itself regarding the probability that Aerojet had used the data derived from the cannon and ammunition purchased in the 1981 transaction in its development of 25mm ammunition and that such data was involved in the transfer of data and ammunition by Aerojet to its Spanish licensee, on July 10, 1987 Machine Tool filed a supplemental motion to dismiss based on the forum selection clause contained in the General Conditions of Supply. (App. 703-704, 750-751 (para. 15-20)). This motion was set for hearing on August 31st concurrently with the already pending motion to dismiss. (App. 703-704). This forum selection clause motion was supported by a Declaration of Heinrich Meier, a Machine Tool representative, dated June 30, 1987 (App. 429-464).

At about that same time, on July 8, 1987, Aerojet served responses to a Machine Tool request for production of documents. (App. 701-702). As part of that response Aerojet produced documents relating to the 1981 transaction, among which was a document entitled "Machine Tool Works, Oerlikon-Buehrle, Ltd. General Conditions of Supply". (App. 413-421). That document varied from the one on which Machine Tool's forum selection motion was based in that, among other things, it required resolution of all disputes by binding arbitration to be held in London, England pursuant to the rules of the International Chamber of Commerce.

That document had not been in Machine Tool's files regarding the 1981 transaction. The document had been transmitted to Aerojet in October 1981 by Machine Tool's American

sales representative, Hermes, Inc. (App. 401), who subsequently went out of business and discarded its files without transferring copies to Machine Tool. (App. 747-749 (para. 6-9)). Upon investigation, Machine Tool concluded that this second General Conditions of Supply document was authentic and the one applicable to the 1981 transaction. (App. 730-732 (para. 13-17), 749 (para. 12-13)). Subsequent discovery established (App. 754-838) and the District Court found that without reasonable dispute it was the document governing the 1981 transaction between the parties. (App. 8-14).

Based on the discovery of this document, on July 29, 1987 Machine Tool filed a motion to stay this action pending arbitration and simultaneously withdrew its forum selection motion. (App. 78; 705-718, 719-723). Other than its reference to the document containing the forum selection clause, Machine Tool continued to rely on the June 30, 1987 Meier Declaration to support the stay motion. This motion was also set for August 31, 1987 concurrently with the still pending motion to dismiss.

The District Court determined to hear Machine Tool's motions seriatim in their logical order. The Court first addressed the motion to dismiss for insufficiency of service, which was denied on August 31, 1987. (App. 79). Next, it addressed the motion to dismiss for lack of personal jurisdiction on September 3, 1987. (App. 157-205). On September 10, 1987 the Court granted the motion as to Oerlikon Holding and denied it as to Machine Tool. The Court also indicated its intention to next address Machine Tool's motion to stay pending arbitration. (App. 206-210).

At the request of Aerojet, the stay motion was continued for a period of approximately six months into March, 1988 for the purpose of permitting discovery on the motion. (App. 212-225).

At the same time the District Court continued the stay motion, it ordered that discovery on the merits should commence beginning on November 10, 1987, based at least in part on Aerojet's contention that discovery on the stay motion and the merits was "so interrelated" and "much intertwined". (App. 216-217). Accordingly, pursuant to that Order, beginning on or about November 10, 1987 both sides also participated in propounding and responding to discovery on the merits.

At the same time the District Court ordered that Machine Tool file a responsive pleading by November 9, 1987. (App. 211). Machine Tool did file an Answer and Counterclaims on that date. (App. 226-243). The District Court also set a discovery cutoff date of June 7, 1988, and scheduled a pretrial conference for September 12, 1988 and a trial date of September 27, 1988. (App. 211).

Eventually, a hearing on the stay motion occurred on March 4, 1988. The result is the Order dated March 14, 1988 staying the entire action and compelling arbitration of all claims and counterclaims. That Order includes a provision that all discovery completed in this action may be used in the arbitration. (App. 3).

Facts Relevant To Scope Of Arbitration Provision Issue

The claims for relief in the Amended Complaint of Aerojet are set forth above. (See App. 85-90).

At the time it answered denying liability, Machine Tool also filed counterclaims against Aerojet. (App. 234-243). The causes of action alleged by Machine Tool are for breach of contract, unfair competition, misappropriation of trade secrets, false representation of goods (Lanham Act violation) and patent infringement.

The allegations underpinning these countersclaims are as follows. Machine Tool is the original designer, developer and manufacturer of a certain type of 25mm ammunition known as "Bushmaster", a common name which applies to all 25mm ammunition procured by the United States Army. During the period of its design and development, Machine Tool created a store of proprietary technical information and patented inventions. Through a series of license agreements, Machine Tool licensed and authorized use of its data and patents for the production of the ammunition by American military contractors, but on the condition that the data and patents be used and the ammunition manufactured, only in the United States or Canada and only for the purpose of supplying the ammunition to the United States and Canadian Governments. This restriction was imposed to prevent the intrusion into other markets by competitors who used Machine Tool's ammunition and data to develop 25mm ammunition.

Pursuant to these licenses, the United States Army obtained Machine Tool's data and provided it to various contractors, including Aerojet, in the form of a technical data package, which in writing specifically restricting the recipients' use to that consistent with the above described licenses and authorizations. Aerojet accepted the technical data

package pursuant to those conditions, which constituted a contractual obligation to the Army of which Machine Tool was a third party beneficiary.

In seeking to become a qualified source of supply "Bushmaster" 25mm ammunition to the Army, Aerojet was required to develop ammunition which met established performance characteristics. For that purpose in 1981, Aerojet entered into a contractual transaction with Machine Tool pursuant to which it purchased from Machine Tool a 25mm cannon and 1600 rounds of Bushmaster 25mm ammunition. As conditions to that transaction Aerojet represented to Machine Tool that (a) it was procuring the gun and ammunition solely for the purpose of enabling it to develop ammunition for supply to the Army and (b) any data derived from the goods supplied would be handled by Aerojet on a proprietary basis, would be furnished only to the United States Government to the extent required by any contract between Aerojet and the Government and would not be furnished to third parties without Machine Tool's prior written consent.

Using the technical data package, the cannon and the ammunition Aerojet developed and manufactured 25mm ammunition for supply to the Army, which is substantially similar to Machine Tool's 25mm ammunition. As a result, Aerojet succeeded in qualifying its ammunition for procurement by the Army.

Then, in or around 1986 Aerojet offered to a Spanish manufacturer a license agreement, which is the subject of Aerojet's Amended Complaint. Pursuant to that agreement Aerojet will supply to the Spanish manufacturer both Machine Tool's data and 25mm components based on Machine Tool's data and patents.

The 25mm ammunition and components which are the subject of that license agreement are the same that Aerojet has manufactured and supplied to the United States Army. It is alleged that the Spanish licensee will transfer the data and components and will utilize them to manufacture and sell 25mm ammunition to the government of Spain and other foreign governments other than the United States.

The above allegations are supported by the uncontradicted Declaration of Heinrich Meier (App. 429-464). The evidentiary record before the District Court also shows that Aerojet received the technical data package from the Army in November 1980, less than one year before it initiated the 1981 transaction. (App. 845 (Arconado deposition p. 44)). The technical data package included performance requirements for the 25mm ammunition (App. 845). Based on its review of the technical data package and to further its goal of developing ammunition that would qualify for procurement by the Army, Aerojet initiated the 1981 transaction because it needed the Machine Tool cannon and 25mm ammunition in order to meet these performance requirements, one of which was interoperability of its ammunition with Machine Tool's cannon. (App. 848-854 (Arconado deposition pp. 49-55)). It used the Machine Tool cannon and ammunition for those purposes, among others, and developed certain data. (App. 855-856 (Arconado deposition pp. 66-67)). One of the Machine Tool rounds of 25mm ammunition that Aerojet required was the Sabot or APDS round. After receiving the same from Machine Tool in 1981, Aerojet's project engineer disassembled at least one

- - -

round, supposedly because of "engineering inquisitiveness" (App. 869-870 (Arconado deposition, pp.85-86)).

Without both the technical data package (alleged to be comprised of Machine Tool's trade secrets and proprietary data) and the cannon and ammunition purchased from Machine Tool in the 1981 transaction (alleged to have been used by Aerojet to derive proprietary data and trade secrets, and possibly assisting in analyzing and copying Machine Tool's patented designs) Aerojet could not have developed 25mm ammunition which qualified for procurement by the Army. (App. 874-876 (Arconado deposition, pp. 95-97)). In both instances, Aerojet agreed to limit its use of documents and material to development of 25mm ammunition for supply to the Army. However, it is alleged (and Aerojet has in effect admitted) that the same ammunition Aerojet has supplied to the Army is the subject of its foreign sales and licensing efforts. (See App. 878-880 (Arconado deposition, pp. 103-105)).

The 1981 transaction was governed by the General Conditions of Supply containing an arbitration provision, which states:

"All disputes arising in connection with the present contract shall finally be settled by arbitration. The arbitration shall be held at London, England and conducted in accordance with the rules of conciliation and arbitration of the International Chamber of Commerce. Any award rendered by the arbitration panel shall be final. Judgment upon the award return may be entered in any court having jurisdiction, or application may be made to such court

for a judicial acceptance of the award and order of enforcement as the case may be." (App. 419, para. 10.2)

The relationship between the claims asserted by Aerojet and the counterclaims asserted by Machine Tool are that the Machine Tool communications, which Aerojet alleges unlawfully interfered with its Spanish agreement, make the same contention as do Machine Tool's counterclaims, including specific references to the technical data package, the 1981 transaction (in at least one instance) and patent infringement. (App. 422-428).

SUMMARY OF ARGUMENT

The Order of the District Court staying the action and compelling arbitration is not an appealable order. This appeal should be dismissed. (See Machine Tool's Motion to Dismiss Appeal). Assuming that the Order is presently reviewable by this Court, it must be affirmed.

Generally, the law of the Ninth Circuit Court of Appeal should be applied by this Court in deciding the issues raised, which are waiver of the right to arbitration and the scope of the arbitration provision.

There has been no waiver by Machine Tool of its right to arbitration. Waiver is not favored because the federal policy in favor of arbitration is strong, particularly in the international context. In order to find a waiver, three elements must be proven by the party opposing arbitration: (1) knowledge by the party seeking arbitration of the existing right to arbitration, (2) acts inconsistent with that existing right and,

- - -

(3) prejudice to the other party resulting from these inconsistent acts.

Although the issue of waiver based on participation in pending litigation is generally reviewed de novo, this assumes undisputed facts. Here, Aerojet has distorted and misstated the facts. If facts are disputed at all, they must be viewed most favorably in support of the order below. In any event, the relevant facts do not demonstrate the existence of a waiver by Machine Tool of its right to arbitration. Its participation in the litigation by filing and litigating a motion to dismiss for insufficiency of service of process and lack of personal jurisdiction prior to filing the stay motion cannot be construed as a waiver in the circumstances, particularly since Machine Tool did not have present knowledge of the existence of the arbitration provision until three weeks before its stay motion was filed.

All the claims asserted by both Aerojet or Machine Tool in the District Court are arbitrable. All doubts concerning the scope of arbitration, especially in the international context, are to be resolved in favor of arbitration. The arbitration clause in issue here is broad, broad enough to include all claims asserted as the District Court correctly concluded.

Machine Tool's rights and Aerojet's obligations regarding manufacture and sales of 25mm ammunition based on Machine Tool's data and patents derive in substantial part from their 1981 transaction containing the arbitration provision. The pleadings and the evidence, primarily Aerojet's own admissions,

demonstrate clearly the nexus between the 1981 transaction and its receipt and use of the technical data package in its development of 25mm ammunition. Machine Tool's counterclaims are all based on both sources of access to Machine Tool's trade secrets and proprietary data. The patent infringement counterclaims are also arbitrable because, among other things, the same Machine Tool licenses authorizing American military contractors to use its proprietary data also included a license to use its patented inventions for the same limited purpose. Finally, Machine Tool's allegations in its counterclaims are the same ones made by it in communications to third persons, which is the gravamen of Aerojet's Amended Complaint.

Assuming arquendo that as a matter of law all the claims are not arbitrable, most are. Therefore, the District Court did not abuse its discretion in staying the entire action pending the outcome of the arbitration.

ARGUMENT

I. THE LAW OF THE NINTH CIRCUIT

GOVERNS THE ISSUES RELEVANT TO THIS APPEAL

Aerojet argues that this Court should apply (or establish) its own case law, not apply that of the Ninth Circuit (out of which the case arose), in determining the issues of waiver of the right to arbitrate and whether the arbitration clause encompasses the patent infringement counterclaims. Aerojet apparently concedes all other arbitrability issues are governed by Ninth Circuit law. Aerojet is clearly wrong on the waiver issue and probably on the arbitrability of the patent claims as well.

It is well established in this circuit that non-patent matters, i.e., issues over which 28 U.S.C. §1295(a)(1) does not afford this court exclusive subject matter jurisdiction, are to be decided by reference to the relevant law of the circuit from which the case originates. All procedural issues and non-patent substantive issues are thus governed by the law of the circuit in which the district court sits. Only substantive patent issues, and those issues relating to this court's own appellate jurisdiction, are to be governed by law existing or established in this circuit. Bendaq v. Al Bolser's Tire Stores, 750 F.2d 903, 909 (Fed. Cir. 1984); Atari, Inc. v. JS&A Group, Inc., 747 F.2d 1422, 1438-1440 (Fed. Cir. 1984); Woodward v. Sage Products, Inc., 818 F.2d 841, 842 (Fed. Cir. 1987).

The nature of the legal issue, not the court's statutory basis for subject matter jurisdiction, determines the choice of law. Sun Studs, Inc. v. Applied Theory Associates, Inc., 772 F.2d 1557, 1561 (Fed. Cir. 1985) [issue of enforceability and construction of settlement agreement of a patent lawsuit decided by reference to law of the circuit (Ninth) out of which case arose]

Aerojet correctly acknowledges that the waiver issue is procedural (see p. 14 of Brief for Appellant). This issue does not in any sense involve a field within the exclusive jurisdiction of this court. The fact that one of the many claims which the District Court ordered stayed pending arbitration was a Machine Tool counterclaim for patent infringement does not undercut the necessary conclusion that the waiver issue is

- - -

procedural and, therefore, to be decided by reference to the law of the Ninth Circuit.

Ninth Circuit cases should also govern the review of the District Court's finding regarding the scope of the arbitration provision as to all claims and counterclaims. An issue of patent law is potentially implicated only to the extent of the arbitrability of patent infringement claims generally, but not whether Machine Tool's infringement counterclaim is within the scope of this particular arbitration clause. Assuming an application or interpretation of 35 U.S.C. §294 may be required, this Court is not bound by decisions of the regional circuit courts. Otherwise, Ninth Circuit law clearly controls the determination of this appeal.

Aerojet's reference to 35 U.S.C. §294 as controlling is inexplicable. Section 294 cannot form the basis of a cause of action or the basis for district court jurisdiction. Ballard Medical Products v. Wright, 823 F.2d 527, 531 (Fed. Cir. 1987). That section also does not purport to address the subjects of waiver or the scope of an arbitration clause. It further provides that arbitration involving a patent ". . . shall be governed by Title 9, United States Code, to the extent such title is not inconsistent with this section. . . ." 35 U.S.C. §294(b). Except as mentioned above, §294 is not even relevant. In any event, it is not inconsistent with Title 9.

II. THERE HAS BEEN NO WAIVER OF THE RIGHT TO ARBITRATION

A. The Standard Of Review

Aerojet states that the standard of review of the issue of waiver is de novo. As Aerojet recognizes (see p. 14 of Brief

for Appellant) de novo review is appropriate only where a determination of the issue on appeal is based upon "undisputed facts" of a party's pretrial participation in litigation. Fisher v. A. G. Becker Paribas, Inc., 791 F.2d 691, 693 (9th Cir. 1986).

Here, the facts regarding Machine Tool's participation in the litigation, insofar as they relate to objective facts of record in the District Court, should be undisputed. To the extent Aerojet attempts to characterize these facts or impute any impure motive to Machine Tool, there is most certainly a dispute. In that context the waiver finding must be reviewed under the clearly erroneous standard even though witnesses did not testify in open court and findings may be based on inferences from undisputed facts. Rule 52(a), Federal Rules of Civil Procedure; see Anderson v. Bessemer City, 470, U.S. 564, 573-574, 84 L.Ed. 2d 518, 528-529, 105 S.Ct. 1504 (1985).

B. The Law Of Waiver

As discussed above, the law of the Ninth Circuit is applicable to a determination of the waiver issue. It is well established that a party asserting a waiver must prove three elements: (1) knowledge of an existing right to compel arbitration; (2) acts inconsistent with that existing right; and (3) prejudice to the party opposing arbitration resulting from such inconsistent acts. Fisher v. A. G. Becker Paribas, Inc., supra, p. 694 and cases cited therein.

Waiver of a contractual right to arbitration is not favored. The examination of whether the right to compel arbitration has been waived must be conducted in light of the strong federal policy favoring enforcement of arbitration

agreements. Id. at p. 694. The policy in favor of enforcement of arbitration agreements is particularly strong in the international context. Mitsubishi Motor Corp. v. Soler Chrysler-Plymouth, 473 U.S. 614, 629, 87 L.Ed.2d 444, 458 (1985); Scherk v. Alberto-Culver, 417 U.S. 506, 515-517, 41 L.Ed.2d 270 (1974); The Bremen v. Zapata Off-Shore Co., 407 U.S. 1, 9, 32 L.Ed.2d 513 (1972). Machine Tool is a Swiss corporation with its principal place of business in Zurich, Switzerland.

C. The Undisputed Facts Do Not Support A Finding Of Waiver

While under certain circumstances participation in litigation by a party can amount to a waiver of the right to arbitration, here, the District Court found Machine Tool did not waive that right. This finding should be affirmed on appeal. Aerojet did not meet its heavy burden of proof on any of the three necessary elements to establish a waiver by Machine Tool.

First, Machine Tool did not have knowledge of the existing right to compel arbitration until Aerojet itself produced the document containing the arbitration provision in July 1987. Machine Tool was not reminded of the 1981 transaction at all until after the commencement of this action when responding to Aerojet's request for production. Even then, Machine Tool did not have in its own files the General Conditions of Supply containing the arbitration provision, but located a different version containing a Swiss forum selection clause. Mistakenly believing it was one of the documents pertaining to the 1981 transaction, Machine Tool did produce to Aerojet this inapplicable document and others in April 1987 promptly upon discovering them. Machine Tool not even come into possession of

the applicable General Condition of Supply, containing the arbitration provision, until that document was produced by Aerojet in July. Machine Tool thereupon promptly prepared and three weeks later (on July 29, 1987) filed its motion to stay pending arbitration and simultaneously withdrew its then pending forum selection motion.

Aerojet argues that Machine Tool should be charged with knowledge of the arbitration provision from the inception of the lawsuit relying on Cornell & Co. v. Barber & Ross Co., 360 F.2d 512 (D. C. Cir. 1966). Here, the facts are much different. Cornell was an action for breach of a contract which was clearly referable to arbitration. Before filing its motion to stay, the defendant had made a motion for change of venue, filed an answer and counterclaim and had conducted discovery. Here, Aerojet's Amended Complaint is not based upon breach of the contract containing the arbitration provision and does not even contain any allegation concerning the 1981 transaction of which the arbitration provision is a part. The 1981 transaction is relevant because it is one of the series of events by which Aerojet was able to obtain access to Machine Tool's trade secrets and patented inventions at the same time it was undertaking obligations regarding its use of the same. Under these circumstances, it would be incorrect to charge Machine Tool with knowledge of the arbitration provision until the date Aerojet produced the document containing it.

Even assuming Machine Tool is charged with knowledge of the arbitration provision at an earlier date, even that length of delay in filing the stay motion is insufficient to constitute a

waiver because of the absence of either of the two other two necessary elements.

Second, Machine Tool did not act inconsistently with its right to arbitration. Machine Tool acted promptly in filing its stay motion within three weeks of Aerojet's production of the document containing the arbitration provision in July 1987. Machine Tool did not act inconsistently with its right to arbitration thereafter.

Even assuming Machine Tool was chargeable with knowledge from the inception of the lawsuit, its prior participation in the action was not inconsistent. The stay motion did not even become ripe for decision until September 1987 when the District Court made determinations adverse to Machine Tool on its Rule 12(b) motion to dismiss based upon insufficiency of service of process and lack of personal jurisdiction. As the District Court itself determined, the logical and appropriate procedure was to consider and decide the motions seriatim beginning with the motion to dismiss for insufficiency of service of process, followed by the motion to dismiss for lack of personal jurisdiction and concluding with the stay motion. The stay motion was filed on July 29th and was initially set for hearing on August 31st, the same day as the pending motion to dismiss. The continuance of the hearing date to March 1988 was at the request of Aerojet for purposes of conducting discovery. If the motion to dismiss had been granted on either ground (and the motion to dismiss for lack of personal jurisdiction was granted as to Oerlikon-Holding), the stay motion would have been mooted.

Third, there has been no prejudice to Aerojet resulting from any arguably inconsistent acts of Machine Tool. Even if the right to arbitration had been asserted at the every outset of the case, the conduct of the litigation would have been virtually identical.

Machine Tool certainly would have still filed its motion to dismiss for insufficiency of service and lack of personal jurisdiction as it must have to avoid a waiver of those defenses. Rule 12(g), Federal Rules of Civil Procedure. Even if the motion to dismiss and the stay motion had been brought concurrently at the inception of the case, the District Court's actual treatment of those motions conclusively establishes that they would have been heard and decided consecutively with the stay motion considered last. Therefore, none of the litigation activity related to the motion to dismiss was prejudicial to Aerojet.

The stay motion was initially set for hearing on the same date as the pending motion to dismiss. The continuance of the stay motion to March 1988 was at the request of Aerojet. In the meantime, the District Court required the parties to complete filing of pleadings, permitted the commencement of discovery on the merits in November 1987 and set dates for a discovery cutoff (June 7, 1988), pretrial conference (September 12, 1988) and a trial (September 21, 1988). Aerojet cannot claim prejudice by any delay in the determination of the stay motion.

- - -

- - -

- - -

Its own request to conduct discovery thereon caused the delay.^{1/} Further, discovery on the merits was proceeding concurrently and, pursuant to the Court's Order, may be used in the arbitration.

Aerojet's contention that it was prejudiced because of the nature of its case is also without merit. Aerojet argues that it is seeking an injunction against allegedly unlawful interference with its sales efforts in foreign markets. However, even though Aerojet does pray for a permanent injunction in its Amended Complaint, it never sought, although it could have, any preliminary injunctive relief in the District Court. Aerojet's unsupported contention that it will be difficult to prove and quantify unfair competition damages should be given no weight except as an admission that Aerojet has suffered no harm at all.

The only Ninth Circuit case relied by Aerojet to support its waiver argument is clearly distinguishable. ATSA of California, Inc. v. Continental Insurance Co., 702 F.2d 172 (9th Cir. 1983) affirmed a trial court finding that no waiver had occurred even though the party requesting arbitration had filed pleadings and engaged in discovery before seeking it.

For all the foregoing reasons, Machine Tool submits that the District Court's finding that there was no waiver of the right of arbitration was correct.

^{1/} Any discovery undertaken by Aerojet was totally unnecessary. That discovery related solely to its own absurd contention that the General Conditions of Supply which it had produced from its own file and which its own representatives readily authenticated under oath was not a part of the 1981 transaction. (See App. 9-15).

III. THE ARBITRATION PROVISION WAS CORRECTLY FOUND
TO ENCOMPASS ALL CLAIMS AND COUNTERCLAIMS.

A. The Standard Of Review

Machine Tool concurs with Aerojet that, to the extent factual findings of the District Court are not disputed, this Court's review of the scope of the arbitration provision is de novo (pg. 23-24 of Brief for Appellant). Aerojet states it is not disputing any factual findings made by the District Court. On the other hand, Machine Tool does not concur that the "facts" relied upon by Aerojet on this issue are ones found by the District Court, are relevant, or constitute a complete statement.

B. A Determination Of The Scope Of The Arbitration Provision Is
Not Merely An Analysis Pursuant To Rules Of Contract
Interpretation

Aerojet suggests that the issue of which claims are within the scope of the arbitration provision is an abstract issue of contract law. Although this is a part of the equation by which the decision reached by the District Court is to be reviewed, it is undoubtedly an incomplete one. Aerojet has chosen to ignore well enunciated federal policy in this area.

The Federal Arbitration Act, 9 U.S.C. §1 et seq. evidences a strong federal policy favoring dispute resolution through arbitration.

"The Arbitration Act thus establishes a 'federal policy favoring arbitration.' Mose H. Cone Memorial Hospital v. Mercury Construction Corp., 460 U.S. 1, 24 (1983), requiring that 'we rigorously enforce agreements to arbitrate.' Dean Witter Reynolds Inc. v.

Byrd, 470 U.S. at 221. This duty to enforce arbitration agreements is not diminished when a party bound by an agreement raises a claim founded on statutory rights."

Shearson/American Express, Inc. v. McMahon, 482 U.S. ___, 96 L.Ed.2d 185, 193, 107 S.Ct. ___ (1987) [holding agreement to arbitrate between brokerage firm and its customers enforceable with respect to claims brought under §10(b) of the Securities Exchange Act of 1934 and RICO].

"The Arbitration Act establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself . . ."

Moses H. Cone Memorial Hospital v. Mercury Construction Corp., 460 U.S. 1, 24-25, 74 L.Ed.2d 765, 785, 103 S.Ct. 927 (1983).

The policy in favor of arbitration is especially strong in the international context present in this case. Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, supra, Scherk v. Albert-Culver, supra, M/S Bremen v. Zapata Off-Shore Co., supra. In discussing this point the Supreme Court in Mitsubishi Motors first quotes from its opinion in Scherk and then reiterates federal policy as follows:

"A contractual provision specifying in advance the forum in which disputes shall be litigated and the law to be applied is . . . an almost indispensable precondition to achievement of the orderliness and

predictability essential to any international business transaction. . . .

'A parochial refusal by the courts of one country to enforce an international arbitration agreement would not only frustrate these purposes, but would invite unseemly and mutually destructive jockeying by the parties to secure tactical litigation advantages . . . [It would] damage the fabric of international commerce and trade, and imperil the willingness and ability of businessmen to enter into international commercial agreements.' 417 U.S., at 516-517, 41 L.Ed.2d 270, 94 S.Ct. 2449."

Aerojet's authority for the narrow approach it would have this Court adopt is not on point. Associated Plumbing & Mechanical Contractors of Sacramento, Inc. v. Local Union No. 447, etc., 811 F.2d 480 (9th Cir. 1987) was a labor relations case involving a dispute between an employer and a multi-employer bargaining association over contributions. The arbitrability of the dispute was analyzed in the context of the Labor Management Relations Act, 29 U.S.C. §141, et seq. United States v. Moorman, 338 U.S. 457, 462, 94 L.Ed. 256, 70 S.Ct. 288, 291 (1950) concerned the validity and interpretation of a government construction contract providing that dispute resolution by the Secretary of War or his representative would be final and binding. Mediterranean Enterprises v. Ssangyong Corp., 708 F.2d 1458 (9th Cir. 1983), the only case cited by Aerojet on this point involving the Federal Arbitration Act, does explicitly recognize the aforementioned federal policy favoring enforcement

of commercial arbitration agreements. However, the opinion's concurrence in the contention that arbitration is also a matter of contract is supported only by citation of labor relations cases. Id. at p. 1463.

C. The Arbitration Clause Was Correctly Interpreted To Encompass All Claims Asserted By Both Parties

The General Conditions Of Supply, which contains terms of the 1981 transaction, provides in paragraph 10.2 in relevant part:

"All disputes arising in connection with the present contract shall be finally settled by arbitration. The arbitration shall be held at London, England and conducted in accordance with the rules of conciliation and arbitration of the International Chamber of Commerce."

The District Court's conclusion that all the claims asserted by both parties in the action were within the scope of that arbitration provision is supported by the pleadings, the undisputed facts before the District Court and the relevant case law. The conclusion was certainly not erroneous as a matter of law.

Machine Tool agrees with Aerojet (see p. 24 of Brief for Appellant) that the usual analysis of this issue (and the one undertaken by the District Court below) is, first, to determine the scope of the arbitration clause and, second, to determine which, if any claims and counterclaims are within that scope.

- - -

- - -

1. The Scope Of The Arbitration Clause Is Broad.

Here, the District Court correctly determined that the arbitration provision before it was broad in scope. (App. 19).

In Prima Paint Corp. v. Flood & Conklin Mfg. Co., 388 U.S. 395, 398, 18 L.Ed.2d 1270, 1274, 87 S.Ct. 1801, 1803 (1967), the Supreme Court interpreted the arbitration clause "arising out of or relating to this agreement" as a "broad arbitration clause".

In Scherk v. Albert-Culver Co., 417 U.S. 506, 41 L.Ed.2d 270, 94 S.Ct. 2449 (1974) the Supreme Court interpreted a clause requiring arbitration of "any controversy or claim . . . aris[ing] out of this agreement or the breach thereof." The plaintiff asserted claims that the defendant's fraudulent misrepresentations concerning trademark rights purchased from defendant violated the federal securities laws. The court held that these claims were within the arbitration clause.

2. All Claims Are Within The Scope Of This Arbitration Clause.

In cases of broad arbitration clauses, if the clause is "susceptible of an interpretation" which includes the dispute and if the party opposing arbitration "fails to muster sufficient evidence of intent to exclude it", the dispute is arbitrable. Pitta v. Hotel Association of New York City, Inc., 806 F.2d 419, 422 (2nd Cir.) 1986.

Here, the arbitration clause is indisputably broad enough to encompass more than breach of contract claims. It includes "all disputes arising in connection with" the contract.

- - -

Aerojet itself acknowledges that, in addition to any breach of contract claim, any trade secret misappropriation or related claims arising out of Aerojet's alleged use of Machine Tool's trade secrets and proprietary data derived from the 1981 transaction are within the scope of the arbitration provision. On the other hand, Aerojet contends that the arbitration provision does not encompass either claims based on rights of Machine Tool as a third party beneficiary of the agreement between Aerojet and the U. S. Government wherein Aerojet received the technical data package or claims based on patent infringement. (See p. 1, No. 2 of Brief for Appellant). The District Court disagreed and its decision should be affirmed.

As noted above, all Aerojet's claims derive from a common factual nucleus. Basically, Aerojet alleges that it independently designed and developed the 25mm ammunition which it is attempting to license and sell to Spain and other foreign countries and that Machine Tool has interfered with those efforts by making false representations to third parties that Aerojet's ammunition embodies Machine Tool's trade secrets which Aerojet has misappropriated. It should be noted that the Machine Tool communications relied upon by Aerojet also make claims of patent infringement against Aerojet. (See App. 422-428).

Machine Tool's counterclaims are several. Machine Tool states a claim for the breach of two contracts. One is an agreement between Aerojet and the United States Government made in connection with a November 1980 transfer to Aerojet of a technical data package under conditions restricting its use to manufacture of 25mm ammunition for supply to the United States

Army only. The other is a contract between the parties relating to the 1981 transaction, which was initiated by Aerojet as part of its effort to qualify as a source of supply of 25mm ammunition to the Army. In other words, both contracts are a part of the same Aerojet project. Aerojet itself acknowledges the close interrelationship between these two events. (See pp. 12-13, above). Machine Tool alleges Aerojet breached these contracts, causing its damage, by using the trade secrets and proprietary data to develop the 25mm ammunition which is the subject of its foreign sales and licensing efforts, including its arrangement with the Spanish manufacturer. This same conduct by Aerojet constitutes the gravamen of Machine Tool's causes of action for unfair competition, trade secret misappropriation and violation of the Lanham Act.

Machine Tool's patent infringement counterclaim alleges the infringement of its patents pertaining to a certain type of 25mm ammunition, known as the "Sabot" or APDS round, in connection with the same foreign sales and licensing efforts by Aerojet. Machine Tool had through a series of license agreements authorized use of its proprietary technical data and patents only for use in production of 25mm ammunition for the U. S. Army by American military contractors. (App. 236). In the 1981 transaction, as part of that same procurement program, Aerojet purchased from Machine Tool one hundred of the same Sabot rounds which are the subject of the patents. There is support for the finding that Aerojet's infringement may have been furthered by this transaction. (App. 27-28). Further, the patent infringement claim is a part and parcel of Machine Tool's

communications with third parties regarding the unlawfulness of Aerojet's foreign sale and licensing efforts, which is the gravamen of Aerojet's Amended Complaint.

All of Machine Tool's counterclaims, and a fortiori Aerojet's claims of interference based upon allegedly false statements on that subject by Machine Tool, arise out of both sources of Aerojet's access to Machine Tool's trade secrets and patented inventions, i.e., (1) the technical data package and (2) the gun and ammunition purchased in the 1981 transaction and the data derived from Aerojet's use and testing. In attempting to prove it did not utilize any Machine Tool trade secrets or proprietary data and did not infringe its patents, Aerojet must establish its 25mm ammunition was created independently of the data it received or developed from both of these two sources and that the ammunition does not employ the patented inventions. Conversely, as alleged in its counterclaims, Machine Tool, in proving its case, will rely on Aerojet's access to its trade secrets, proprietary data and patented inventions in both transactions.

It is immaterial that most of Machine Tool's communications with third parties did not make reference to the 1981 transaction. Most of these communications occurred before Machine Tool was aware of the significance of the 1981 transaction. This will not preclude Machine Tool from defending against Aerojet's claims based on all relevant evidence or from pleading and proving its counterclaims on the same basis. Further, even on the present record, at least one Machine Tool

- - -

communication to the United States Department of State makes reference to the 1981 transaction. (App. 425-428).

Aerojet's principal arguments in support of reversal are as follows: (1) the District Court erroneously interpreted the arbitration provision to include a second contract by which Aerojet obligated itself for the benefit of Machine Tool to limited use of Machine Tool's trade secrets and proprietary information (see pp. 25-27 and 33-35 of Brief for Appellant); (2) the District Court gave a "highly expansive interpretation" to the term "data", as used in paragraph 1.5 of the General Conditions of Supply, in which Aerojet agreed that Machine Tool's ". . . data would be handled on a proprietary basis . . . [and] may be furnished to the U. S. Government only to the extent required by any applicable requirement of any Contract between [Aerojet] and the U. S. Government, but will not be furnished to third parties without [Machine Tool's] prior written consent."; (pp. 27-31 of Brief of Appellant) and (3) the District Court's interpretation imputed an intent to the parties that is irreconcilable with the law at the time of the agreement, i.e., that patent disputes are not arbitrable (pp. 31-33 of Brief of Appellant) . Each of these arguments is insufficient to establish an error of law by the District Court.

First, there was no error in finding arbitrable those claims for breach of contract and misappropriation of trade secret based in part upon Aerojet receipt and use of the technical data package. As explained in detail above, because the 1981 transaction was inextricably intertwined with Aerojet's use of the data obtained from the technical data package in

attempting to become a source of supply of 25mm ammunition to the Army, it was proper to conclude that claims based upon both sources of access were ". . . disputes arising in connection with the present contract. . . "

In support of its argument Aerojet relies primarily on Mediterranean Enterprises, Inc., v. Ssangyong Corp., supra, and Necchi v. Necchi Sewing Machine Sale Corp., 348 F.2d 693 (2nd Cir. 1965).

In Mediterranean Enterprises, the court held the term "arising hereunder" to be synonymous with "arising under" and characterized it as "relatively narrow", being intended to cover only disputes relating to the interpretation or performance of the contract itself. The court relied heavily on In re Kinoshita & Co., 287 F.2d 951 (2nd Cir. 1961), which construed "arising under" and "arising out of" to have a similar scope although stating that the phrase "arising under" is narrower than the phrase "arising out of or relating to". Here, the parties' arbitration provision is much broader. Aerojet acknowledges it encompasses more than breach of contract claims.

Aerojet also neglects to mention that In Re Kinoshita has been largely discredited in the Second Circuit. In S. A. Mineracao da Triandade-Samitri v. Utah International, 745 F.2d 190 (2nd Cir. 1984), the court, although it did not overrule that case ". . . despite its inconsistency with federal policy favoring arbitration, particularly in international business disputes, . . . " (at p.194), stated that it was to be confined to arbitration clauses using its precise wording. 745 F.2d at 194. In Mineracao the Court interpreted the phrase ". . . any

question or dispute arising or occurring under". It held that this language did not exclude from arbitration claims that the contract was fraudulently induced. More importantly, the court also held that (1) where the agreements containing the arbitration clause contemplated additional stock purchases by the parties, subsequent agreements calling for those additional stock purchases were subject to the arbitration clauses in the early agreement; and (2) even where a memorandum was made eight years after the agreements containing the arbitration provision, which referred to the agreement and could be viewed as a supplement to it, the arbitration clause in the original agreements applied to the memorandum as well. 745 F.2d at p.195-196.

Necchi is also inapposite. That case stands for the proposition that a dispute is not arbitrable if it is "governed by" a contract "separate and distinct" from the contract containing the arbitration provision. Necchi, supra, p. 698, see Pervel Industries, Inc., v. TM Wallcovering, 657 F.Supp. 867, 869 (S.D.N.Y. 1987).

In Pervel Industries, a dispute over whether a wallcovering manufacturer had breached an alleged exclusive distribution agreement with a distributor was held to be within the scope of an arbitration clause in order acknowledgement forms, which were a part of sales contracts between the parties. There was no formal written distribution agreement, but the distributor claimed it was embodied in a series of letters between the parties. The arbitration provision in the forms provided in relevant part:

"Any controversy arising out of or relating to
this contract shall be settled by arbitration . . . "
The Court distinguished Necchi by pointing out:

"[T]here are not two formalized contracts as there
were in Necchi that would enable the court to say with
confidence that these contracts were 'separate and
distinct'." 675 F. Supp. at p. 869.

Here, also, there was no formalized contract between
Aerojet and Machine Tool (or even with the Army) in connection
with the delivery of the technical data package. It cannot be
said that Aerojet's unlawful use of trade secrets in breach of
the conditions under which that document was accepted is
"governed by" that contract, particularly where other trade
secrets gained from the 1981 transaction have been
misappropriated by Aerojet simultaneously and indistinguishably
as part of its foreign sales and licensing activities.

Second, Aerojet's argument that the District Court gave
a "highly expansive interpretation" to the term "data" as used in
paragraph 1.5 of the General Conditions of Supply is both
inaccurate and, even if accurate, insufficient to establish
error.

Machine Tool was aware of Aerojet's purpose in
purchasing the cannon and ammunition in the 1981 transaction --
Aerojet's program to develop 25mm ammunition for procurement by
the Army. (App. 406, 401). Machine Tool knew that the technical
data package, containing other proprietary data, had been
delivered to Aerojet since Aerojet could not have developed
qualifying ammunition without it. (App. 432-433 (para. 10-11),

873-875). Therefore, it follows that paragraph 1.5 of the General Condition of Supply is susceptible of an interpretation including proprietary data of Machine Tool contained in the technical data package.

Further, while reference to paragraph 1.5, is supportive of the District Court's interpretation of the scope of the arbitration provision, it not indispensable. Whether or not "data" (as used in paragraph 1.5) also includes data of Machine Tool other than that derived from the cannon and ammunition purchased in the 1981 transaction does not affect the undisputed finding that there was an interrelationship and continuity of purpose between the delivery and use by Aerojet of the technical data package in November 1980 and the items purchased in the 1981 transaction. The present disputes, to the extent they involve rights or allegations arising from the 1981 transaction, also involve those arising from the conditions attached to the delivery of the technical data package.

Interpreting "data" in paragraph 1.5 to include patent rights is also logical. Machine Tool's licenses authorized use of its data for production of 25mm ammunition by American military contractors only for sale to the United States and Canadian governments. These same license agreements licensed those same persons to use its patented inventions for the same limited purpose. (App. 236, para. 6). The 1981 transaction pertained to the same Army 25mm ammunition procurement program. There is no persuasive evidence that "data" did not also include patented inventions which Aerojet might (and allegedly did) use in developing 25mm ammunition. Further, there is a contention

that an infringement of the patent rights of Machine Tool was assisted by dissection and analysis of the Sabot rounds purchased by Aerojet in the 1981 transaction. (See App. 769-770).

Third, there are obvious weaknesses in Aerojet's argument that the parties could not have intended to arbitrate any patent infringement claims because such an agreement at that time was not legally enforceable.

The enactment of 35 U.S.C. §294 in 1982 did not create the right to contract for arbitration of patent disputes. The enactment of §294 merely guaranteed the right to arbitrate such disputes. Rhone-Poulenc Specialities Chimiques v. SCM Corp., 769 F.2d 1569, 1572, fn. 1 (Fed. Cir. 1985). In fact, in Rhone-Poulenc this Court reversed a district court decision that patent related claims were not within the scope of the parties' arbitration provision contained in an agreement that predated the enactment of §294. This Court stated that the subsequent passage of §294 was consistent with their intent when they entered the agreement. Id.

The usual rationale for pre-1982 holdings against the enforceability of arbitration provisions in the patent area was the grant to federal courts of exclusive jurisdiction under 28 U.S.C. §1338(a). However, federal court jurisdiction of proceedings arising under patent laws is not exclusive to other forums in the international context, even though federal court jurisdiction is exclusive to state courts. Warner & Swasey Co. v. Salvagnini Transferica, 633 F.Supp. 1209, 1212-1213 (W. D. N.Y. 1986). There, in an patent infringement case, the court

enforced a forum selection clause requiring suit in Italy in a contract between an Ohio licensee and an Italian licensor. The court's holding was buttressed by an analogy to arbitration cases including Scherk v. Alberto-Culver, supra, which enforced an agreement to arbitrate federal securities law claims before the International Chamber of Commerce in Paris. The court specifically rejected the argument that an Italian court would have difficulty in applying complex U. S. patent laws. Id. at p. 1214.

Finally, any inference that the parties did not intend to arbitrate any patent disputes, because of any prohibition under American law, is wholly inappropriate in view of the contract provision that Swiss law is to apply (App. 419, para. 8.1). There is no evidence of any prohibition to arbitration of patent disputes under Swiss law. In fact, such disputes are arbitrable.

For all of the foregoing reasons, Machine Tool submits that the District Court did not commit an error of law in determining that all claims asserted by the parties in this action were within the scope of their arbitration provision.

IV. EVEN IF ONLY LESS THAN ALL OF THE CLAIMS ARE WITHIN THE SCOPE OF THE ARBITRATION PROVISION. THE COURT HAD DISCRETION TO STAY THE ENTIRE ACTION

The decision to stay litigation on non-arbitrable claims pending the outcome of arbitration is one left to the trial court as a matter of its discretion to control its docket. Moses H. Cohen Memorial Hospital, supra, 74 L.Ed.2d at 782-783, 460 U.S. at 20, 103 S.Ct. at 939, fn.23. The district court has

authority to stay non-arbitrable claims in the interest of saving time and effort for itself and the parties. Landis v. North American Co., 299 U.S. 248, 254-255, 81 L.Ed. 153, 158, 57 S.Ct. 163, 165-166. Factors which bear on the determination of this issue include whether or not the arbitrable claims predominate and whether arbitration might resolve issues in the non-arbitrable claims, thus obviating or reducing further litigation. Wilcox v. Ho-Wing Sit, 586 F.Supp. 561, 567-568 (N.D. Cal. 1984). However, in order to stay the non-arbitrable claims it is not required that issues subject to arbitration are necessarily controlling of the action. Leyva v. Certified Grocers of California, Ltd., 593 F.2d 857, 863-864 (9th Cir. 1979).

Where the entire action is stayed, after the district court receives the results of the arbitration it may proceed to adjudicate those issues which fall outside the scope of the arbitration clause. Mediterranean Enterprises, Inc., supra, at p. 1465.

Assuming that the District Court committed an error of law by concluding that all the parties' claims were arbitrable, that portion of the Order staying the entire action pending arbitration was not an abuse of discretion. All of the claims alleged are so intertwined that arbitration will be useful in resolving many factual and legal issues relevant to any claims that might be nonarbitrable. Further, as a practical matter, neither party is in a position to concurrently arbitrate in London, England and litigate in Los Angeles, California.

Therefore, even assuming arguendo any error by the District Court in compelling arbitration of all claims, it was

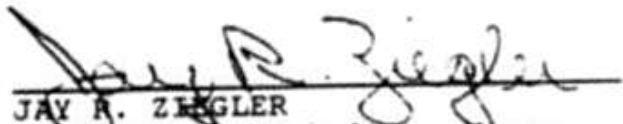
not an abuse of discretion to stay the entire action during the pendency of the arbitration of those claims within the scope of the arbitration provision.

CONCLUSION

The District Court's decision to stay all claims and compel their arbitration was legally correct. There was no waiver of any right to arbitration by Machine Tool. All claims before the Court were within the scope of the arbitration provision. Assuming the order staying the action and compelling arbitration is appealable at all as an interlocutory order, it should be affirmed by this Court.

DATED: October 5, 1988.

Respectfully submitted,



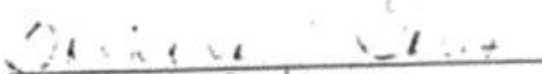
JAY R. ZIEGLER
A Member of Buchalter, Nemer,
Fields & Younger
A Professional Corporation
Attorneys for Defendant-Appellee
Machine Tool Works, OerlikonBührle,
Ltd.

700 South Flower Street
Suite 700
Los Angeles, California 90017
(213) 626-6700

CERTIFICATE OF SERVICE

I hereby certify that I caused two copies of the foregoing BRIEF FOR APPELLEE to be served this 2 day of October, 1988 via 1stclass mail to Appellant's attorneys of record as follows:

Robert A. Schroeder, Esq.
Pretty, Schroeder, Brueggeman
& Clark
444 South Flower Street
Suite 2000
Los Angeles, CA 90017


Barbara S. Garis