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Federal Circuit Patent Bulletin: *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*

July 26, 2016

"[A] court may order arbitration of a particular dispute only where the court is satisfied that the parties agreed to arbitrate that dispute."

On July 26, 2016, in *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Reyna,* Clevenger, Wallach) affirmed the district court's order denying the motion by Illumina, Inc. (which owns Verinata) to compel arbitration of claims that Ariosa Diagnostics, Inc. infringed U.S. Patent No. 7,955,794, which related to DNA assay optimization techniques. The Federal Circuit stated:

Arbitration agreements are governed by state contract law, except to the extent state law is displaced by "federal substantive law regarding arbitration." The Federal Arbitration Act mandates enforcement of valid, written arbitration provisions. When a party moves to compel arbitration of a dispute, a court must determine whether the parties agreed to arbitrate that dispute. Thus, "a court may order arbitration of a particular dispute only where the court is satisfied that the parties agreed to arbitrate that dispute." In determining whether an agreement requires arbitration, courts must recognize that the Federal Arbitration Act "establishes a national policy favoring arbitration when the parties contract for that mode of dispute resolution." "The presumption in favor of arbitrability applies only where the scope of the agreement is ambiguous as to the dispute at hand, and we adhere to the presumption and order arbitration only where the presumption is not rebutted."

Illumina argues that the district court should have compelled arbitration under the supply agreement. Illumina asserts that the supply agreement's arbitration clause is ambiguous. Illumina contends that due to this ambiguity, it need only demonstrate that the agreement is susceptible to an interpretation in favor of arbitration and that that interpretation is reasonable. . . .

We agree that Ariosa's counterclaims are not subject to arbitration. The pertinent language of the arbitration provision is unambiguous and makes clear that "disputes relating to issues of" patent scope and infringement are not subject to mandatory arbitration. Illumina put the scope of licensed patent rights in issue by suing Ariosa for patent infringement. The counterclaims at issue—declaratory judgment of non-infringement, breach of contract, and breach of certain covenants—are predicated on the notion that the infringement allegations cannot stand because of the licensing provisions within the supply agreement. The scope of the licensed

intellectual property rights is germane to whether Ariosa ultimately obtained a license to the '794 patent for goods that it has been exclusively purchasing from Illumina under the supply agreement. Ariosa's counterclaims are not about licensing or a license defense in the abstract—they are centered on whether Ariosa is licensed to use, and thus is immunized from infringement of, the asserted claims of the '794 patent. Given the scope of the supply agreement term "any Intellectual Property Rights," it would be an odd circumstance to countenance parallel district court litigation with license as an affirmative defense, while forcing arbitration over counterclaims arising from that very license.

The arbitration clause applies to issues identified by the supply agreement that are not patent-related, such as failure of performance and defenses against the enforceability or validity of the supply agreement itself. Illumina's argument fails to appreciate that the excluded issues are about disputes over the scope of the licensed intellectual property—not whether a party lacked capacity to contract or failed to ship product under agreed upon terms and conditions.

The Ninth Circuit and courts interpreting California law have held that the phrase "relating to" should be given broad meaning, in contrast to other prefatory phrases, such as "arising hereunder." In view of California law and past interpretations of similar clauses, a disagreement about the scope of licensed rights does not render the clause ambiguous for purposes of invoking the presumption in favor of arbitration. To the extent Illumina suggests that the word "issues" narrows the import of the exclusion-from-arbitration clause, we disagree because the full phrase links "issues" with the modifier "relating to": "disputes relating to issues of."

Illumina has presented no extrinsic evidence to support its narrow interpretation, and instead relies on attorney argument. The district court was correct not to sever the contract counterclaims. We do not reach the issue of whether Illumina waives its argument that Ariosa's license defense is subject to the arbitration clause of the Agreement. Even so, Illumina fails to articulate how to separate as discrete the patent infringement issues involved in the contract counterclaims. The nucleus of Ariosa's counterclaims is the patent infringement lawsuit filed by Illumina. Illumina cannot hijack the counterclaims and make them its own for purposes of compelling arbitration. The counterclaims all rise or fall on the scope determination of licensed intellectual property rights, a matter that the parties expressly agreed to exempt from arbitration.