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Arbitration by Accident: The Consequence of Unintentionally Meeting the Clear and Unmistakable Evidence Standard

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Arbitration by Accident: The Consequence of Unintentionally Meeting the Clear and Unmistakable Evidence Standard

Qualcomm Inc. v. Nokia Corp.[1]

I. INTRODUCTION

A fundamental principle of arbitration law is that parties may only be compelled to submit an issue to arbitration if they agreed to do so.[2] The question of when an arbitrator, instead of a district court, can decide the arbitrability of an issue has been taken up by the courts in recent years. In *First Options of Chicago, Inc. v. Kaplan*,[3] the Supreme Court stated that an arbitrator may decide questions of arbitrability only when the parties have "clearly and unmistakably" agreed to defer such questions to an arbitrator.[4] Since *First Options*, the lower courts have attempted to define when parties have satisfied the clear and unmistakable standard. The question of what constitutes clear and unmistakable evidence remains to be definitively answered. Must it be an express statement of an agreement developed through the bargaining process, or can it be something less, like a boilerplate arbitration provision that incorporates intent through an outside document? The Supreme Court has only issued minimal guidance on the subject.

The courts of appeals that have ruled on the issue have generally decided that the "clear and unmistakable evidence" requirement may be satisfied when parties incorporate the rules of an arbitration forum into their agreement.[5] If those rules call for an arbitrator to decide the question of arbitrability, then the courts have deemed the requirement to be met. In *Qualcomm v. Nokia*,[6] the Federal Circuit held that the parties clearly and unmistakably intended to delegate the issue of determining arbitrability to an arbitrator by incorporating the American Arbitration Association's (AAA) rules into their agreement.[7] The Federal Circuit's decision in *Qualcomm* also adds a new twist to the analysis by instructing that if a district court finds the requisite clear and unmistakable intent, it should then perform a second "wholly groundless" inquiry prior to submitting the issue to arbitration.[8] This casenote examines the potential consequences of the Federal Circuit's ruling in *Qualcomm*.

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1. 466 F.3d 1366 (Fed. Cir. 2006).
2. First Options of Chi., Inc. v. Kaplan, 514 U.S. 938, 945 (1995).
3. *Id.*
4. *Id.* at 944 (quoting AT&T Techs., Inc. v. Commc'ns Workers of Am., 475 U.S. 643, 49 (1986)).
5. *See* Contec Corp. v. Remote Solution Co., 398 F.3d 205 (2d Cir. 2005); Apollo Computer, Inc. v. Berg, 886 F.2d 469 (1st Cir. 1989); Terminix Int'l Co. v. Palmer Ranch Ltd. P'ship, 432 F.3d 1327 (11th Cir. 2005).
6. 466 F. 3d 1366.
7. *Id.* at 1372-73.
8. *Id.* at 1373.

II. FACTS & HOLDING

Nokia Corporation (Nokia) is in the business of manufacturing wireless phones and infrastructure equipment used by wireless telephone service carriers.[9] In the field of wireless telecommunications, Qualcomm Inc. (Qualcomm) obtained several patents for their ground-breaking innovations in developing two technologies, the Code Division Multiple Access (CDMA) standard and the Global System for Mobile Communications (GSM) standard.[10] These standards are essential for mobile stations and infrastructure equipment to function properly.

In a contract dated July 2001 (the "2001 Agreement"), Qualcomm gave Nokia a license permitting Nokia to manufacture products that integrated Qualcomm's patented CDMA technology.[11] An arbitration clause in the 2001 Agreement specified that any controversy arising out of the contract between the two parties would be submitted to an arbitrator pursuant to the rules of the American Arbitration Association (AAA).[12]

In November 2005, Qualcomm filed a complaint against Nokia for patent infringement in the United States District Court for the Southern District of California.[13] Nokia responded with two actions: (1) they commenced an arbitration proceeding, and (2) they filed two motions with the district court.[14]

Through the arbitration proceeding, Nokia sought an arbitrator's ruling on two issues.[15] As to the first, Nokia asserted an estoppel defense, claiming that Qualcomm took certain misleading actions which caused Nokia to believe that Qualcomm did not actually hold the patents that Qualcomm claimed Nokia had infringed upon in its complaint.[16] As to its second issue, Nokia asserted that they held a valid license under the 2001 Agreement to incorporate Qualcomm's patented CDMA technology into the products they manufacture.[17]

Nokia also filed two motions with the district court.[18] First, Nokia moved to stay the district court action in accordance with Section 3 of the Federal Arbitration Act (FAA), which provides that the court shall stay the trial to allow for an arbitration if the court is "satisfied that the issue involved in such suit or proceeding is referable to arbitration under . . . an agreement."[19] Secondly, Nokia filed a

9. *Id.* at 1368. Nokia Corporation and Nokia, Inc. are the named appellants in this appeal of the district court's denial of its motion to stay pending arbitration. *Id.*.

10. *Id.* Qualcomm Inc. and SnapTrack Inc. are the appellees in this appeal. *Id.*

11. *Id.*

12. *Id.* The contract further states that the 2001 Agreement will be interpreted in accordance with the law of the state of California. *Id.*

13. *Id.* In its complaint, Qualcomm alleged that Nokia had infringed on twelve patents held by Qualcomm. *Id.*

14. *Id.* at 1368– 69.

15. *Id.*

16. *Id.* at 1368.

17. *Id.* at 1368-69. Nokia wished to assert these two claims as affirmative defenses to Qualcomm's claims of patent infringement. In Footnote 1 of its opinion, the Court observes that Nokia was wary of asserting these affirmative defenses in an answer filed in the district court for fear that by so doing, they would waive their right to seek arbitration. Therefore, Nokia first asserted these affirmative defenses in its motion to stay, and not in its answer. *Id.* at 1369 n.1.

18. *Id.* at 1369.

19. *Id.* Section 3 of the FAA provides:

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such

motion to dismiss Qualcomm's complaint, or alternatively, for a more definite statement.[20] On March 14, 2006, the district court denied Nokia's motion to stay and motion to dismiss.[21] The court found that the Nokia products at issue in Qualcomm's complaint involved patents separate from those protecting the CDMA technology.[22] Since the arbitration agreement covered only CDMA patents, the court concluded that the issues alleged in the complaint were beyond the scope of the 2001 Agreement. Therefore, the arbitration clause was meaningless for the purpose of resolving the dispute.[23]

The court granted Nokia's request for a more definite statement, and as a result Qualcomm amended its complaint to state that their claims were based on Nokia's products incorporating the GSM, not the CDMA technology.[24] The amended complaint then expressly excluded from the lawsuit any Nokia product related to the license held under the 2001 Agreement.[25]

In response to the amended complaint, Nokia alleged that there was a dispute over which of their products was licensed under the 2001 Agreement.[26] Nokia argued that the amended complaint, by referencing the 3rd Generation Partnership Project, called into question another technology that Nokia maintains they held a license to under the 2001 Agreement.[27] This third standard is known as Universal Mobile Telecommunications Systems (UMTS), a distinct standard apart from GSM and CDMA.[28] According to Nokia, Qualcomm's amended complaint alleged patent infringement by both UMTS and GSM products made by Nokia but excludes from the lawsuit products licensed under the 2001 Agreement.[29] However, Nokia alleged that the agreement included UMTS products.[30] As a result of this apparent discrepancy, Nokia claimed that there was a dispute as to which products were licensed under the 2001 Agreement, and therefore Qualcomm's complaint remained unclear.[31]

Subsequently, Nokia filed, and the district court granted, a motion to stay pending an appeal of the denial of the motion to dismiss to the United States Court

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suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.

9 U.S.C. § 3 (2000).

20. *Qualcomm*, 466 F.3d at 1369.

21. *Id.*

22. *Id.*

23. *Id.* In its Order, the court stated that "the Court is not satisfied under 9 U.S.C. § 3 that the issues involved in the instant case are referable to arbitration. . . ." *Id.*

24. *Id.* "Nokia manufactures . . . products that comply with the GSM family of standards and technical specifications promulgated, published and/or adopted by the 3rd Generation Partnership Project. . . ." *Id.*

25. *Id.*

26. *Id.*

27. *Id.* The 3rd Generation Partnership Project promulgates standards for UMTS. Paragraph 23 of the Amended Complaints alleges that Nokia's UMTS are products of infringement, but paragraph 24 excludes products licensed under the 2001 Agreement, which Nokia believes includes UMTS products.

28. *Id.* at 1369 n.2.

29. *Id.* at 1369.

30. *Id.*

31. *Id.*

of Appeals for the Federal Circuit.[32] On this appeal, Nokia and Qualcomm presented to the circuit court differing opinions as to when it is appropriate for an arbitrator to decide the arbitrability of an issue. Section 3 of the FAA states that if a district court is "satisfied" that the issue involved in a suit brought before it is referable to arbitration under an agreement between the parties, then the court should stay the trial of the action and refer the matter to arbitration in accordance with the agreement.[33]

Nokia contended that when the district court finds that the parties "clearly and unmistakably" intended to arbitrate the arbitrability of an issue, then the court meets Section 3's satisfaction requirement and must stay the proceeding pending the arbitrator's decision.[34] In contrast, Qualcomm argued that the district court should determine, on its own, the arbitrability of an issue in order to be satisfied that the issue is in fact arbitrable.[35]

The Federal Circuit Court of Appeals remanded the case to the district court, holding that a stay of judicial proceedings is only proper when the parties' intent to arbitrate issues of arbitrability is clear and unmistakable and when the claim of arbitrability is not "wholly groundless."[36]

III. LEGAL BACKGROUND

In passing the FAA, Congress avowed a policy favoring arbitration.[37] According to Section 3 of the FAA, a district court must stay the judicial proceeding if it is "satisfied" that the issue involved is arbitrable.[38] This "arbitrability" question has been defined as "whether the parties have submitted a particular dispute to arbitration."[39] Examples of questions of arbitrability include whether the parties are bound by an arbitration clause and whether a dispute between parties is covered by an arbitration clause in a binding contract.[40] The scope of the term is

32. *Id.*

33. *Id.* at 1370.

34. *Id.* In Footnote 3 of the opinion, the Circuit Court notes Nokia conceded during oral argument that the district court should not be required to stay the trial if a claim of arbitrability were wholly groundless, even if the agreement "clearly and unmistakably" manifested an intention to have an arbitrator decide issues of arbitrability. *Id.* at 1371 n.3.

35. *Id.* at 1370-71.

36. *Id.* at 1371.

> If the court concludes that the parties did not clearly and unmistakably intend to delegate arbitrability decisions to an arbitrator, the general rule that the "question of arbitrability . . . is . . . for judicial determination" applies and the court should undertake a full arbitrability inquiry in order to be "satisfied" that the issue involved is referable to arbitration. . . . If the district court finds that the assertion of arbitrability is "wholly groundless," then it may conclude that it is not satisfied under section 3, and deny the moving party's request for a stay.

Id. (quoting AT&T Techs., Inc., v. Commc'ns Workers of Am., 475 U.S. 643, 649 (1986)).

37. Moses H. Cone Mem'l Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 24 (1983).

38. 9 U.S.C. § 3. ("[T]he court . . . upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall . . . stay the trial of the action. . . .").

39. Howsam v. Dean Witter Reynolds, Inc., 537 U.S. 79, 83 (2002) (citing AT&T Techs., Inc., v. Commc'ns Workers of Am., 475 U.S. 643, 49 (1986)).

40. *Id.* at 84 (citing AT&T Techs., Inc., v. Commc'ns Workers of Am., 475 U.S. 643, 649 (1986)).

limited and does not apply to other procedural gateway questions, such as whether the claim is barred by a statute of limitations.[41]

A. Guidance from U.S. Supreme Court Decisions

According to the United States Supreme Court, the general rule is that the district courts have the duty to decide arbitrability.[42] In *AT&T v. Communications Workers of America*,[43] the Court faced the issue of whether courts must first determine whether the parties intended to arbitrate a disagreement before granting a request to send the issue to an arbitrator.[44] The dispute arose when AT&T decided to lay off a number of union workers, causing the Union to believe AT&T had violated a provision of the collective bargaining agreement.[45] The collective bargaining agreement required that a dispute between the parties over their respective obligations or over the interpretation of the agreement must be submitted to an arbitrator upon the request of either party.[46] The district court ruled that the threshold question of arbitrability in this case was to be decided by the arbitrator.[47] The Seventh Circuit affirmed, citing its fear that judicial determination of the question might result in the court weighing the merits of the claim.[48]

In reaching its conclusion, the Supreme Court held that deciding whether an agreement requires the parties to arbitrate "is undeniably an issue for judicial determination."[49] Under this holding, the district court has the duty to make the initial determination of whether the dispute in question should be submitted to an arbitrator, without ruling on the merits of the dispute.[50]

In subsequent cases, the Supreme Court has refined this general rule. In *First Options of Chicago, Inc. v. Kaplan*,[51] the Court held that whether a court or an arbitrator should decide the question of arbitrability depends on what the parties agreed to.[52] If the parties agreed to have an arbitrator decide, then the arbitrator should in fact be the one who decides whether the issue is arbitrable.[53] On the other hand, if the parties did not make such an agreement, then the general rule applies, and the court has the duty to decide arbitrability in the same manner it would decide any other issue that was not submitted to arbitration.[54] The Court set forth a standard of "clear and unmistakable evidence" for determining whether

41. *Id.* at 84-85 (citing AT&T Techs., Inc., v. Commc'ns Workers of Am., 475 U.S. 643, 649 (1986)).

42. AT&T Techs., Inc., v. Commc'ns Workers of Am., 475 U.S. 643, 649 (1986).

43. *Id.*

44. *Id.* at 644.

45. *Id.* at 645-46.

46. *Id.* at 644-45.

47. *Id.* at 647 (quoting App. To Pet. For Cert.11A, Commc'm Workers of Am. v. W. Elec. Co., 751 F.2d 203 (7th Cir. 1984)).

48. *Id.*

49. *Id.* at 649. "Unless the parties clearly and unmistakably provide otherwise, the question of whether the parties agreed to arbitrate is to be decided by the court, not the arbitrator." *Id.* (citing United Steelworkers of Am. v. Warrior & Gulf Navigation Co. 363 U.S.574, 582-83 (1960)).

50. *Id.* (citing John Wiley & Sons, Inc. v. Livingston, 376 U.S. 543, 546 (1964)).

51. 514 U.S. 938 (1995).

52. *Id.* at 943.

53. *Id.*

54. *Id.*

the parties agreed to have an arbitrator answer the question of arbitrability.[55] In explaining the clear and unmistakable evidence standard, the Court noted that it is a higher standard than that which is normally applied to an arbitration question.[56] Normally, the Court has instructed that uncertainties regarding arbitration issues should be resolved in favor of arbitration.[57] However, in making the initial call as to whether the parties intended a court or an arbitrator to make the arbitrability decision, the Court requires a higher standard of proof to override the general rule that calls for judicial determination.[58]

In *First Options*, the court concluded that the parties had not met this standard, and therefore the district court had jurisdiction over the arbitrability decision.[59] The Kaplans had not signed the agreement which contained the relevant arbitration clause, and the fact that the Kaplans filed a written memorandum objecting to the arbitrator's ability to hear the case did not evince a willingness to be bound by the arbitrator's decision.[60] *First Options* stands for the proposition that the Supreme Court is willing to let the parties to an agreement determine who should make the arbitrability judgment, as long as their intent to do so is clear and unmistakable. However, how parties to an agreement are to show this intent remained undefined.

In *Howsam v. Dean Witter Reynolds, Inc.*[61] the Court was asked to hold that the clear and unmistakable standard may be met by either a broad arbitration clause stating that any and all disputes would be submitted to arbitration, or in the alternative, by incorporating the rules of an arbitration forum such as the National Association of Securities Dealers (NASD).[62] In reaching its decision, the Court declined to adopt either argument and instead clarified the nuances of the definition of arbitrability.[63]

The agreement between the parties in *Howsam* provided that all controversies arising out of the agreement were to be submitted to arbitration and allowed Howsam to select the arbitration forum to be used by the parties.[64] At issue in the case was whether the court or an arbitrator should apply one of the provisions of the NASD's rules, which Howsam had selected to use.[65] The NASD provision in question stated that a dispute may not be submitted to arbitration if six years had passed since the dispute arose.[66] Dean Witter asked the court to apply the NASD provision and to enjoin Howsam from submitting the issue to arbitration.[67] How-

55. *Id.* at 944 (citing At&T Techs. Inc. v. Commc'ns Workers of Am., 475 U.S. 643, 649 (1986)).
56. *See id.*at 944-45.
57. *Id.* at 945 (citing Moses H. Cone Mem'l Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 24-25 (1983)).
58. *Id.*
59. *Id.* at 947.
60. *Id.* at 941 n.59, 946.
61. 537 U.S. 79 (2002).
62. *See* Brief for the Petioner at 32-40, Howsam v. Dean Witter Reynolds, Inc. 537 U.S. 79 (2002) (No. 01-800); Richard C. Reuben, *First Options, Consent to Arbitration, and the Demise of Separability: Restoring Access to Justice for Contracts with Arbitration Provisions*, 56 SMU L. REV. 819, 866 (2003).
63. Howsam v. Dean Witter Reynolds, Inc., 537 U.S. 79, 83-84 (2002).
64. *Id.* at 81-82.
65. *Id.* at 82-83
66. *Id.* at 82.
67. *Id.*

sam asked the court to stay the action and submit the matter to arbitration. According to Howsam, a broad arbitration clause or a clause which incorporates the arbitration rules of a forum (the NASD), should be sufficient to satisfy the clear and unmistakable requirement and allow an arbitrator to decide arbitrability questions.[68] In reversing the district court, the Tenth Circuit found that the provision concerned the dispute's arbitrability, and therefore it applied the general rule that the district court should decide such questions.[69]

The Supreme Court reversed the Tenth Circuit's ruling, concluding that the NASD time limit provision should be determined by an arbitrator, not by a district court.[70] The Court's analysis began with a reminder that arbitration is a matter of contract law, and that no party should be compelled to submit a dispute to arbitration unless they agreed to do so.[71] The Court then noted that the general rule that arbitrability is a question for judicial determination is an exception to the federal policy favoring arbitration, and it may only be disregarded if the parties clearly and unmistakably provide otherwise.[72] The question for the Court to resolve was whether the application of the NASD time limit is an issue that falls within the scope of "arbitrability."[73]

The Court made a distinction between disputes involving whether the parties to an agreement are bound by an arbitration clause, which raises a question of arbitrability for judicial determination, from procedural questions arising from the dispute itself, which are generally for an arbitrator to decide.[74] Examples of the second type include time limits, notice, estoppel, and other similar defenses.[75] The Court found that the NASD time limit was akin to the latter group of questions and, therefore, held that the matter should have been submitted to arbitration.[76]

Importantly, the Court did not even acknowledge Howsam's argument that the parties expressed the clear and unmistakable intent necessary to override the general rule by incorporating the rules of the NASD, which call for arbitrators to decide arbitrability questions.[77]

B. Incorporating Clear and Unmistakable Intent in the Circuit Courts

Even though the Supreme Court declined to do so, several of the Circuit Courts have determined that one way for the parties to show the requisite clear and unmistakable intent is by incorporating into their agreement the rules of an

68. Brief for the Petitioner at 32-40; Howsam v. Dean Witter Reynolds, Inc. 537 U.S. 79 (2002) (No. 01-800).
69. *Howsam*, 537 U.S. at 82.
70. *Id.* at 84.
71. *Id.* at 83 (quoting United Steelworkers of Am. v. Warrior & Gulf Navigation Co., 363 U.S. 574, 582 (1960)).
72. *Id.* (quoting AT&T Techs. Inc. v. Commc'ns Workers of Am., 475 U.S. 643, 649 (1986); First Options of Chi., Inc. v. Kaplan 514 U.S. 938, 941 (1995)).
73. *Id.*
74. *Id.* at 84 (citations omitted).
75. *Id.* at 85.
76. *Id.*
77. Reuben, *supra* note 62, at 867.

arbitration forum, such as the AAA. In *Contec Corp. v. Remote Solution Co.*,[78] the Second Circuit found that the parties satisfied the clear and unmistakable evidence standard because their agreement incorporated the AAA rules.[79] The agreement stated that in the event the parties are unable to resolve a dispute on their own, the issue would be submitted to an arbitrator, who would be obligated to utilize the rules of the AAA in reaching their decision.[80] The AAA grants the arbitrator the authority to determine issues of arbitrability.[81] Therefore, the court found such an action constitutes clear and unmistakable evidence of the intent to have an arbitrator decide the issue.[82]

Similarly, in *Apollo Computer v. Berg*,[83] the First Circuit held that an agreement incorporating the rules of the International Chamber of Commerce (ICC) satisfied the clear and unmistakable evidence standard, since the rules of the ICC called for an arbitrator to determine arbitrability.[84] In *Terminix International Co. v. Palmer Ranch, LTD. Parnership*,[85] the Eleventh Circuit likewise found that an agreement adopting the AAA rules was clear and unmistakable evidence that the parties intended for an arbitrator to decide arbitrability.[86] In *Terminix*, the court merely cited to the *Contec* and *Apollo* decisions as the reason why they were "able to avoid" the analysis necessary to find clear and unmistakable evidence of the parties' intent.[87]

C. *California Courts Add to the Test*

California courts suggest that their state law is consistent with the federal case law on the issue of who is the appropriate party to determine arbitrability. In *Dream Theater, Inc. v. Dream Theater*,[88] the California Court of Appeal for the Second District noted that California courts have a common practice of looking to federal law when deciding state arbitration law issues.[89] In *Dream Theater*, the court applied the federal standard that courts should decide the question of arbitrability unless the parties can show clear and unmistakable evidence of their intention to have an arbitrator make that decision.[90] However, prior to staying the proceeding to allow an arbitrator to rule on the arbitrability of the issue, the trial court is charged with the additional task of determining whether the claim is

78. 398 F.3d 205 (2d Cir. 2005).
79. *Id.* at 208 (citations omitted).
80. *Id.*
81. *Id.* (citing AMERICAN ARBITRATION ASSOCIATION, COMMERCIAL ARBITRATION RULES AND MEDIATION PROCEDURES, R.7(a)). "The arbitrator shall have the power to rule on his or her own jurisdiction, including any objections with respect to the existence, scope or validity of the arbitration agreement." AMERICAN ARBITRATION ASSOCIATION, COMMERCIAL ARBITRATION RULES AND MEDIATION PROCEDURES, R.7(a) (2005), *available at* http://www.adr.org/sp.asp?id=22440#R7.
82. *Contec*, 398 F.3d at 208.
83. 886 F.2d 469 (1st Cir. 1989).
84. *Id.* at 473.
85. 432 F.3d 1327 (11th Cir. 2005).
86. *Id.* at 1332.
87. *Id.* at 1332-33.
88. 21 Cal. Rptr. 3d 322 (Cal. Ct. App. 2004).
89. *Id.* at 326.
90. *Id.* (citing United Pub. Employees v. City & County of San Francisco, 62 Cal. Rptr. 2d 440 (Cal. Ct. App. 1997)).

"wholly groundless."[91] In making this determination, the trial court is necessarily required to engage in some interpretation of the agreement.[92] This additional inquiry essentially requires a trial court to weigh the merits of the arbitration claim, and as a result, prevent some cases from going to arbitration.

IV. INSTANT DECISION

The statutory language of the FAA requires the district court to be "satisfied" with the arbitrability of the issue in dispute before granting a stay.[93] Therefore, in the instant case, the Federal Circuit Court of Appeals had to decide if the district court performed the proper inquiry in determining whether to stay the judicial proceeding to allow for an arbitration hearing.[94] Thus, the court began its analysis by trying to determine who had the authority to decide arbitrability, the district court or the arbitrator.[95]

The Federal Circuit first reiterated the general rule promulgated by the Supreme Court in *AT&T*, stating that the issue of arbitrability is generally for the court to resolve.[96] Despite the general rule, the court next stated that the parties' intent, as evidenced by their agreement, controls the question of who should decide whether an issue is arbitrable.[97] The court explained that clear and unmistakable evidence is the standard used to determine whether the parties intended to have an arbitrator resolve the arbitrability of the issue.[98] Finally, the court noted that, while the 2001 Agreement was to be governed by California law, California law mirrored federal law on questions regarding arbitrability.[99] Therefore, the court needed to determine whether the parties to the 2001 Agreement clearly and unmistakably intended to have the arbitrability of their dispute decided by an arbitrator.

To answer this question, the Federal Circuit looked to the analysis employed in *Contec*, where the Second Circuit concluded that the parties, by expressly adopting the Rules of the AAA in their agreement, had established the clear and unmistakable intent to refer the question to an arbitrator.[100] The court explained that because the AAA rules grant arbitrators the authority to determine arbitrability, adopting those rules demonstrates the clear and unmistakable intent necessary to override the general rule and allow an arbitrator to determine such an issue.[101] Therefore, the court found that by incorporating the AAA rules in their agreement,

91. *Id.* (citing McCarroll v. L.A. County etc. Carpenters, 49 Cal. 3d 45 (1957)).
92. *Id.* (citing Freeman v. State Farm Mut. Auto Ins. Co., 14 Cal. 3d 473 (1975)).
93. Qualcomm, Inc. v. Nokia Corp. 466 F.3d 1366, 1370 (Fed. Cir. 2006).
94. *Id.* at 1371-72.
95. *Id.* at 1372.
96. *Id.* ("The question of arbitrability . . . is undeniably an issue for judicial determination." (citing AT&T Techs. Inc. v. Commc'ns Workers of Am, 475 U.S. 643, 649 (1986))).
97. *Id.* ("The question who has the primary power to decide arbitrability turns upon what the parties agreed about *that* matter." (citing First Options of Chi. Inc. v. Kaplan, 514 U.S. 938, 941 (1995))).
98. *Id.* (citing First Options of Chi. Inc. v. Kaplan, 514 U.S. 938, 941 (1995)).
99. *Id.* (citing Dream Theater, Inc. v. Dream Theatre, 21 Cal. Rptr. 3d 322 (Cal. Ct. App. 2004)). The 2001 Agreement stated that it should be construed in accordance with California law. *Id.* at 1372.
100. *Id.* at 1373.
101. *Id.*

Qualcomm and Nokia had displayed the requisite intent to defer the issue of arbitrability to an arbitrator.[102]

Having made this determination, the Federal Circuit ruled that a district court should next perform a second inquiry to determine whether the claim of arbitrability was "wholly groundless," as set forth by the California courts.[103] According to the Federal Circuit, the wholly groundless inquiry would prevent a party from asserting any groundless claim in order to compel arbitration, while at the same time meeting the "satisfied" requirement of Section 3 of the FAA.[104] Therefore, the court adopted this second test.[105]

In the instant decision, the Federal Circuit vacated the district court's ruling and remanded the action because the district court did not apply the "wholly groundless" analysis to the two arbitration claims asserted by Nokia.[106] The court likened the district court's prior analysis to the type of full arbitrability scrutiny that would be proper had the court initially found that the parties did not clearly and unmistakably intend to have an arbitrator decide arbitrability.[107]

In order to make the "wholly groundless" determination, the Federal Circuit instructed the district court to look at the scope of the arbitration clause as well as the particular issue in dispute.[108] Furthermore, the Federal Circuit warned the district court to not make an arbitrability determination on its own on remand, as that would wrongly encroach on the rights of the arbitrator as set forth by the parties' clear and unmistakable intent in their 2001 Agreement.[109] If the district court decides that the arbitration claim is not "wholly groundless," then the "satisfied" requirement of the FAA would be met, and the district court should grant a stay of the judicial proceedings.[110] However, if the court does not find such evidence, then the district court should perform the arbitrability analysis itself under the general rule that the question of arbitrability is for judicial determination.[111]

V. COMMENT

In *Qualcomm*, the Federal Circuit made two noteworthy decisions. The first decision was to adopt the Second Circuit's holding that parties will satisfy the "clear and unmistakable evidence" standard by incorporating the rules of the AAA into their agreement.

In *First Options*, the Supreme Court decided that for an arbitrator to have the authority to decide questions of arbitrability, the parties must have manifested their intent to do so by "clear and unmistakable" evidence, despite the general federal policy favoring arbitration. The rationale behind this decision is that an arbitration agreement is essentially an agreement to waive one's right to access the

102. *Id.*
103. *Id.*
104. *Id.* at n.5 (citing *Dream Theater*, 21 Cal. Rptr. 3d 322, 326 (Cal. Ct. App. 2004).
105. *Id.*
106. *Id.* at 1374-75 (Nokia asserted both an estoppel defense and a license defense).
107. *Id.* at 1372.
108. *Id.* at 1374.
109. *Id.*
110. *Id.*
111. *Id.*

court system to resolve disputes.[112] The right to access the courts is a fundamental right of U.S. citizens. Courts should not allow individuals to unintentionally waive this significant right by signing a contract containing a boilerplate arbitration clause. This rationale is consistent with the idea that a party must not be compelled to arbitrate an issue unless they agreed to do so.[113] Therefore, the Court in *First Options* created a higher standard of evidence to supersede the general rule that calls for judicial determination of arbitrability questions. An additional rationale supporting the *First Options* decision stems from the great amount of deference reviewing courts give to arbitration decisions.[114] The determinations of an arbitrator are rarely overturned by a reviewing court.[115] Furthermore, in reaching their decisions, arbitrators are not bound to follow the rule of law. Such heavy consequences associated with waiving one's right to access the courts undoubtedly played a role in convincing the Supreme Court to adopt a higher standard of evidence before compelling a party to submit to arbitration.

In *Qualcomm*, the Federal Circuit found that since the agreement between the parties incorporated the AAA rules, and because those rules give the arbitrator the authority to rule on arbitrability, the parties' incorporation of those rules manifested the necessary "clear and unmistakable" intent to have an arbitrator decide arbitrability.

The decision to allow incorporation of an arbitration forum's set of rules to satisfy the clear and unmistakable evidence standard is consistent with the federal courts' strong pro-arbitration policy. However, as arbitration and arbitration provisions in contracts become more common, it is doubtful that boilerplate arbitration provisions will reflect what the parties clearly and unmistakably intended. An inexperienced party could unwittingly discard their constitutional right to access the court system simply by agreeing to a contract that contains a boilerplate arbitration clause adopting the rules of the AAA. The potential consequences of such a result are highlighted by recognizing that arbitrators are not required to be familiar with the rule of law, and those that know the law may choose to disregard it in reaching their decision.[116] Since the general rule calls for the district courts to make arbitrability decisions, contracting parties may fail to focus on who should make the arbitrability decision in drafting their agreements, believing that this question will be resolved by a judge.[117] The consequences of this result may be especially harsh in the context of adhesion contracts, where one party must choose

112. Reuben, *supra* note 62, at 857.

113. First Options of Chi., Inc. v. Kaplan, 514 U.S. 938, 943 (1995); AT&T Techs., Inc. v. Commnc'ns Workers of Am., 475 U.S. 643, 648 (1986); United Steelworkers of Am. v. Warrior & Gulf Navigation Co., 363 U.S. 564, 570-71, 582 (1960).

114. Reuben, *supra* note 62, at 823.

115. LEONARD L. RISKIN ET AL., DISPUTE RESOLUTION AND LAWYERS 375 (Abridged ed. 3d ed. 2006).

116. *See* Reuben, *supra* note 62, at 822-23; RISKIN, *supra* note 115, at 314-16.

117. Howsam v. Dean Witter Reynolds, Inc., 537 U.S. 79, 83-84 (2002).

> The Court has found the phrase [arbitrability] applicable in the kind of narrow circumstance where contracting parties would likely have expected a court to have decided the gateway matter, where they are not likely to have thought that they had agreed that an arbitrator would do so, and, consequently, where reference of the gateway dispute to the court avoids the risk of forcing parties to arbitrate a matter that they may well not have agreed to arbitrate.

Id.

between accepting the agreement on the other party's terms or forego the opportunity to enter into the agreement altogether.[118]

In announcing the clear and unmistakable evidence standard, the Supreme Court likely did not intend for the standard to be unintentionally met by unwary contracting parties. Professor Reuben points out that the Court declined the opportunity to adopt Howsam's argument that incorporation of an arbitration forum's rules is sufficient to meet the clear and unmistakable evidence standard.[119] The resulting implication is that the Court does not believe adopting a forum's rules is enough to satisfy the standard.[120] Professor Reuben notes that the Court may be moving the law towards a requirement of actual consent before a party may be compelled to arbitration, a move that is incompatible with an incorporation argument.[121] This argument seems persuasive and consistent with the Supreme Court's rationale in adopting a higher standard before compelling a party to submit to arbitration. It is entirely inconsistent for the Court to require a higher standard of evidence to rebut the general rule but then to allow this requirement to be accidentally met by merely incorporating an arbitration forum's rules into an agreement. The results reached by the Federal Circuit in *Qualcomm* and by the other Courts of Appeals seem to be incompatible with the Supreme Court's rationale for adopting the clear and unmistakable evidence standard.

The Federal Circuit's decision in *Qualcomm* is also significant for its holding that if a district court finds the parties have met the clear and unmistakable evidence standard, it should perform a "wholly groundless" inquiry before granting a stay of the judicial action.[122] The purported reason for this second test is to prevent a party from asserting any groundless claim in order to compel the other party to submit to arbitration.[123] However, this requirement conflicts with Supreme Court precedent. The Court has instructed the district courts to stay the judicial action upon a finding that the parties clearly and unmistakably intended to have an arbitrator decide arbitrability questions. The problem with the wholly groundless inquiry is that it requires the district court to delve into the merits of the dispute, an act that the Supreme Court has declared impermissible. In *AT&T Techs. v. Communications Workers of America*, the Court held that if the district court finds the parties agreed to submit a dispute to arbitration, then the judicial action should be stayed, even if the underlying claim appears to be frivolous: "The courts,

118. RISKIN, *supra* note 115, at 366.

119. Reuben, *supra* note 62, at 867-68.

120. *Id.* at 869.

121. *See* Reuben, *supra* note 62. Professor Reuben believes the Supreme Court may be moving to a requirement of actual consent before a party may meet the "clear and unmistakable evidence" standard and be compelled to submit to arbitration. He contrasts this movement with earlier Supreme Court precedent starting with *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395 (1967), which he believes paved the way for allowing implied consent to arbitrate to be sufficient to send a matter to arbitration. Under Reuben's view, the "incorporation by reference" argument that stands for the proposition that the clear and unmistakable evidence standard may be met by adopting the rules of the AAA holds little weight. *But see* Alan Scott Rau, *The Arbitrability Question Itself*, 10 AM. REV. INT'L ARB. 287, 331-33, 339 (1999) (questioning whether there is a conflict between *Prima Paint* and *First Options* and which states that the two cases involve different issues); Alan Scott Rau, *Everything You Really Needed to Know About "Separability" in Seventeen Simple Propositions*, 14 AM. REV. INT'L. ARB. 1, 29-30 (2003) (directly confronting Reuben's interpretation of *Prima Paint).*

122. Qualcomm Inc. v. Nokia Corp., 466 F.3d 1366, 1374 (Fed. Cir. 2006).

123. *Id.* at 1373 n.5.

therefore, have no business weighing the merits of the grievance . . . The agreement is to submit all grievances to arbitration, not merely those which the court will deem meritorious."[124] Therefore, the Federal Circuit has adopted a standard that directly contradicts a longstanding principle of the Supreme Court's arbitration philosophy.[125]

An examination of the advantages and disadvantages of a wholly groundless inquiry may be helpful in understanding why the Federal Circuit decided to adopt the test. It must be noted that there are some potential practical advantages to the wholly groundless inquiry. The time and resources of the parties will be spared by having a judge dispense with meritless claims at the outset, instead of requiring the parties to prepare for and present their claims to an arbitrator. The wholly groundless inquiry may have the additional positive effect of preventing inequitable arbitration results. Courts typically afford great deference to arbitration rulings.[126] Since arbitrators are not required to follow the rule of law, this could potentially result in a party succeeding in arbitration with a claim that is wholly groundless in the eyes of the law, leaving the losing side with little or no recourse.[127]

However, one could argue that there is little justification for the wholly groundless inquiry. An agreement to arbitrate is a contract between two parties, and the intent of the parties should be honored.[128] If the claim is without merit, then any reasonable fact-finder would be unlikely to rule for that party. In addition to going against the intent of the parties, the wholly groundless test requires the court to spend its time and resources weighing the merits of the case. This result would detract from one of the attractive qualities of arbitration, in that it relieves court congestion and saves court resources.[129] Additionally, the wholly groundless analysis requires parties to first argue the merits of their case to the court in order to have the dispute submitted to arbitration, where the parties will then have to argue the merits all over again to a different fact-finder.

The wholly groundless inquiry also conflicts with the federal pro-arbitration policy.[130] If the parties explicitly agreed to submit all disputes to an arbitrator, and one of the parties feels he has been wronged in some way, then he should be able to present his claim to the previously agreed upon fact-finder. The wholly groundless inquiry has the potential to prevent some disputes from being submitted to arbitration, despite the parties' clear and unmistakable intent to do so. Under a wholly groundless analysis, a district court may prevent issues it deems frivolous from arbitration, despite contrary Supreme Court precedent requiring

124. AT&T Techs., Inc. v. Commc'ns Workers of Am., 475 U.S. 643, 650 (1986) (citing Steelworkers v. American Mfg. Co., 363 U.S. 564, 568 (1960).

125. *See id.*

126. RISKIN, *supra* note 115, at 375.

127. Reuben, *supra* note 62, at 822-23.

128. Howsam v. Dean Witter Reynolds, Inc., 537 U.S. 79, 83 (2002).

129. RISKIN, *supra* note 115, at 316.

130. Moses H. Cone Mem'l Hosp. v. Mercury Const. Corp., 460 US 1, 24-25 (1983).

> Section 2 [of the Federal Arbitration Act] is a congressional declaration of a liberal federal policy favoring arbitration agreements . . . 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 or an allegation of waiver, delay, or a like defense to arbitrability.

Id.

courts to submit all issues, frivolous and non-frivolous alike, to arbitration where the parties' intent to do so is clear.[131]

Therefore, both parts of the holding expounded by the Federal Circuit go against policies adopted by the Supreme Court. The two parts of the holding are also inconsistent with each other in their practical application. The Federal Circuit's first decision, that incorporating an arbitration forum's rules satisfies the clear and unmistakable evidence standard, risks sending issues to arbitration that the parties intended a court to handle. On the other hand, the wholly groundless test adopted by the Federal Circuit potentially prevents some disputes from being sent to arbitration despite the parties' clear and unmistakable intent to do so.

The lower courts seem to be reaching decisions that are incompatible with the Supreme Court's rationale behind *First Options*, which calls for a higher standard of proof before a district court should compel a party to submit to arbitration.[132] The result in *Qualcomm* exemplifies this inconsistency between the lower courts decisions and the policy underlying *First Options*. To avoid such conflict, the Supreme Court should establish clearer guidance on how to satisfy the "clear and unmistakable evidence" standard.[133] In *Howsam*, the Court declined to decide whether the standard may be met by incorporating the rules of the AAA, suggesting such an act is insufficient.[134] If the Court intends to require a more express showing of the parties' intent to meet the "clear and unmistakable evidence" standard, then the Court should so state.

VI. CONCLUSION

The Federal Circuit's decision in *Qualcomm* should put all contracting parties on notice that agreements must be carefully drafted to avoid unintentionally satisfying the "clear and unmistakable evidence" standard. If the parties' intend to follow the general rule that arbitrability decisions are a matter for judicial determination, they should expressly provide for this rule in their contracts. However, the parties need only insert a boilerplate arbitration provision that adopts the rules of an arbitration forum, such as the AAA, to trigger the exception to the general rule. Therefore, while boilerplate language triggers the exception, parties must draft wisely to have a dispute resolved according to the general rule. This result conflicts with the Supreme Court's rationale in adopting the "clear and unmistakable evidence" standard. Decisions such as *First Options* and *Howsam* may indicate the Supreme Court's support for a requirement of actual consent. However, until the Court gives more guidance as to what is sufficient to meet the "clear and unmistakable evidence" standard, the lower courts are likely to continue to issue decisions such as *Qualcomm* that directly contradict longstanding principles of the Court.

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131. AT&T Techs., Inc. v. Commnc'ns Workers of Am., 475 U.S. 643, 650 (1986) ("The courts, therefore, have no business weighing the merits of the grievance. . . [T]he agreement is to submit all grievances to arbitration, not merely those which the court will deem meritorious.").
132. Reuben, *supra* note 62, at 861-62.
133. *Id.* at 866.
134. *Id.* at 869.