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More Than Just Territorial: The 8th Circuit Establishes a Resourceful Precedent in Claiming Jurisdiction Over Denials to Compel Arbitration

Industrial Wire Products, Inc. v. Costco Wholesale Corp.¹

I. INTRODUCTION

As the legal community begins to shift its focus to alternative methods of dispute resolution, many contracts today include mandatory arbitration provisions.² Specifically, many businesses require that disputes be resolved through arbitration, an alternative dispute mechanism, for the purposes of speed, efficiency, and finality.³ The Federal Arbitration Act (FAA), enacted by Congress in 1925, governs arbitration agreements.⁴ Applicable to this note is Section 16(a)(1)(A) of the FAA, which allows parties who have been granted or denied motions to compel arbitration to appeal that decision.⁵ Section 16, however, does not specify to which court such an appeal should be taken.⁶ Thus, federal appellate courts, including regional circuit courts of appeals and the Court of Appeals for the Federal Circuit, have been left to interpret general statutes providing for the courts of appeals’ jurisdiction.

This has caused a split in authority as to whether an order compelling or denying a motion to arbitrate falls under exclusive federal circuit appellate jurisdiction or whether the appeal falls under regional appellate court jurisdiction.⁷ The Federal Circuit has nationwide, exclusive jurisdiction over specialized areas of law, such as patent law and administrative law.⁸ In addition, the Federal Circuit has jurisdiction over appeals for interlocutory orders granting injunctions.⁹ The

¹ 576 F.3d 516 (8th Cir. 2009).
² See Jean R. Stemlight, The Rise and Spread of Mandatory Arbitration as a Substitute for the Jury Trial, 38 U.S.F. L. Rev. 17, 18 (2003) ("Companies providing a broad range of products and services are now using small print contracts of adhesion to require their customers, employees, business partners, and others to resolve any future disputes through binding arbitration, rather than through litigation.").
³ Id.; see also Julius Henry Cohen & Kenneth Dayton, The New Federal Arbitration Law, 12 Va. L. Rev. 265, 265, 269 (1926) (noting that the benefits of arbitration include the avoidance of congestion in the courts, and litigation’s slow pace, expense, and technical formalities); Meredith R. Miller, Contracting out of Process, Contracting out of Corporate Accountability: An Argument Against Enforcement of Pre-Dispute Limits on Process, 75 Tenn. L. Rev. 365, 373 (2008).
⁶ See 9 U.S.C. § 16.
⁷ See infra Part III.A.
Federal Circuit considers denials of motions to compel arbitration injunctive in nature. In contrast, many circuit courts of appeals do not find denials of motions to compel arbitration injunctive in nature and conclude that the regional circuit court of appeals has jurisdiction. Consequently, this has created a lack of uniformity among the appellate courts.

This note argues that the Eighth Circuit’s decision to claim jurisdiction in *Industrial Wire Products, Inc. v. Costco Wholesale Corp.* was practical and resourceful, as that court is better suited to decide matters of contract interpretation. The highly specialized Federal Circuit should devote its time and expertise to governing cases in particular areas of law, like patent litigation and administrative law. This note further argues that the Eighth Circuit preserved judicial resources and adhered to the parties’ intentions in holding that the patent infringement claims were required to proceed through arbitration.

II. FACTS AND HOLDING

In 2006 and 2007, Costco Wholesale Corp. (Costco) entered into an agreement with Industrial Wire Products, Inc. (IWP) in which IWP agreed to supply Costco with IWP’s patented “Configurable Bins,” a type of interlocking plastic storage container. The 2007 vendor agreement between Costco and IWP contained the following arbitration clause:

\[27.1\] All claims and disputes that (1) are between Vendor (IWP) and Costco Wholesale . . . and (2) arise out of or relate to the agreement documents or any agreement or transaction or occurrence between Vendor [IWP] and Costco Wholesale or to their performance or breach (including any tort or statutory claim) . . . shall be arbitrated under the Commercial Arbitration Rules of the American Arbitration Association (“AAA”), in English in Seattle, Washington . . .

\[27.2\] Vendor [IWP] acknowledges and agrees that . . . this agreement to arbitrate covers, without limitation, any claims with respect to matters relating to the distribution rights of any of the parties arising under this Import Agreement or any applicable law.

Costco subsequently began selling a product called “Interlocking Shoe Organizer,” which Costco purchased from a different vendor. “Interlocking Shoe Organizer” is a storage device product comprised of a series of panels that are joined with interlocking connectors to produce bins of various shapes and configurations. IWP filed suit against Costco in January 2008, alleging patent and

trade dress infringement arising out of Costco’s sale of the “Interlocking Shoe Organizer,” as well as violations of Missouri’s unfair competition laws. In response, Costco moved to compel arbitration under the parties’ vendor agreement. The United States District Court for the Eastern District of Missouri, having jurisdiction under 28 U.S.C. §1338, denied the motion to compel arbitration. The court analyzed paragraph 27.1 of the 2007 vendor agreement and held that IWP’s claims were not arbitrable because they did not arise from the vendor agreement or any agreement, transaction, or occurrence between the parties. The court did not, however, analyze whether IWP’s claims were arbitrable under paragraph 27.2 of the 2007 vendor agreement.

On June 24, 2008, Costco appealed the decision arguing that paragraph 27.2 covers intellectual property disputes and the refusal to compel arbitration should be reversed. Specifically, Costco contended that paragraph 27.2 covers the right to distribute products based on provisions within the agreement or “any applicable law, such as patent law, as asserted in the complaint.” The Eighth Circuit found that the district court was likely correct in its interpretation of paragraph 27.1, but that the district court erred by failing to analyze paragraph 27.2, which contains additional language concerning the scope of the parties’ arbitration agreement. The Eighth Circuit interpreted the arbitration clause liberally and, while noting that it resolves any doubts in favor of arbitration, held that the dispute fell within the scope of the parties’ arbitration agreement and that the district court erred in denying Costco’s motion to compel arbitration.

The Eighth Circuit also addressed appellate jurisdictional issues, holding that the district court’s decision (denying defendant’s motion to compel arbitration) was not a final decision and thus the appeal did not fall under the exclusive jurisdiction of the Federal Circuit under 28 U.S.C. §1295(a)(1). The Eighth Circuit further held that the order denying the motion to compel arbitration was not an “order denying an interlocutory injunction,” which would vest the Federal Circuit Court with jurisdiction under 28 U.S.C. § 1292. The Eighth Circuit ultimately

16. “[T]rade dress... [is] a category that originally included only the packaging, or 'dressing,' of a product, but in recent years has been expanded by many courts of appeals to encompass the design of a product.” Wal-Mart Stores, Inc. v. Samara Bros., 529 U.S. 205, 209 (2000).
17. Indus. Wire, 576 F.3d at 518.
18. Id.
19. §28 U.S.C § 1338 (“The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.”).
21. Id.
22. Id. at 518.
23. The Eighth Circuit held that a notice of interlocutory appeal under §16 of the FAA divests the district court of jurisdiction to proceed with the case pending appeal. The court granted Costco’s motion to stay litigation pending the appeal. See Indus. Wire Prods., Inc. v. Costco Wholesale Corp., No. 4:08-CV-70 CAS, 2008 WL 2906716, at *1-*2 (E.D. Mo. July 24, 2008) (mem.).
25. Id. (emphasis in original).
26. Id.
27. Id. at 519; see also 28 U.S.C. § 1295(a)(1) (2006).
29. Indus. Wire, 576 F.3d at 519-20; see also 28 U.S.C. § 1292(a)-(b).
stated that its jurisdiction was vested in 9 U.S.C. § 16(a)(1), which renders the denial of a motion to compel arbitration appealable, as well as 28 U.S.C. § 1294(1), which provides that an appeal from a reviewable decision of a district court shall be taken to the court of appeals for the circuit embracing the district. 30

III. LEGAL BACKGROUND

A. Jurisdiction

Congress enacted the Federal Arbitration Act (FAA or the Act) to promote alternative dispute resolution and court enforcement of arbitration agreements. 31 Section 4 of the Act allows a party seeking to compel arbitration to file suit solely for that purpose, or if a lawsuit has already been commenced, to file a motion to compel arbitration as part of the litigation. 32 If a motion to stay litigation or compel arbitration is filed pursuant to Section 4 of the Act, Section 16 of the Act then provides for interlocutory review of said motions. 33 By allowing interlocutory review of motions to compel arbitration, Section 16 prevents the litigation process from hindering arbitration or undermining the advantages of arbitration. 34 Section 16(b) prohibits appellate review of interlocutory orders favorable to arbitration, while Section 16(a) allows for review of an order unfavorable to arbitration. 35 Relevant to this note is Section 16(a)(1)(b), which allows interlocutory review of orders denying a petition to order arbitration to proceed under Section 4. 36

33. The Federal Arbitration Act (FAA), 9 U.S.C. § 16 provides:
(a) An appeal may be taken from—
(1) an order—
(A) refusing a stay of any action under section 3 of this title,
(B) denying a petition under section 4 of this title to order arbitration to proceed,
(C) denying an application under section 206 of this title to compel arbitration,
(D) confirming or denying confirmation of an award or partial award, or
(E) modifying, correcting, or vacating an award;
(2) an interlocutory order granting, continuing, or modifying an injunction against an arbitration that is subject to this title; or
(3) a final decision with respect to an arbitration that is subject to this title.
(b) Except as otherwise provided in section 1292(b) of title 28, an appeal may not be taken from an interlocutory order—
(1) granting a stay of any action under section 3 of this title;
(2) directing arbitration to proceed under section 4 of this title;
(3) compelling arbitration under section 206 of this title; or
(4) refusing to enjoin an arbitration that is subject to this title.
34. See Pierre H. Bergeron, District Courts as Gatekeepers? A New Vision of Appellate Jurisdiction over Orders Compelling Arbitration, 51 EMORY L.J. 1365, 1372-73 (2002) ("Consistent with the pro-arbitration approach of the FAA, section 16 sought to facilitate appeals from orders that favored litigation over arbitration while curtailing immediate review over orders compelling arbitration.").
35. 9 U.S.C. § 16(a)-(b).
In deciding whether to hear an appeal, an appellate court must first determine whether it has jurisdiction. To make this decision, federal appellate courts look to statutory law governing federal appellate jurisdiction, specifically 28 U.S.C. §§ 1291, 1292, 1294, and 1295. These statutes generally characterize arbitration orders as either "final," "interlocutory," or "collateral." 28 U.S.C. § 1292(a)(1) confers jurisdiction over appeals from interlocutory orders of U.S. district courts granting or denying injunctions. Section 1292(a)(1)'s application can often be a source of confusion for appellate courts in determining jurisdiction. Specifically, courts have historically disagreed as to whether orders compelling or denying arbitration in ongoing proceedings under Section 4 are considered injunctions for the purposes of jurisdiction under Section 1292(a)(1). If the interlocutory order is found to be injunctive in nature, then under Section 1292(c), the Federal Circuit will have exclusive jurisdiction. The ultimate decision as to whether an order is injunctive is important because it affects whether the appeal goes to a circuit court of appeals or the Federal Circuit Court of Appeals.

The Federal Circuit Court of Appeals (Federal Circuit) is unique among the thirteen circuit courts of appeals because it has nationwide jurisdiction in various subject areas. Much like any other circuit court of appeals, many of the Federal Circuit’s appeals come from the district courts. However, the Federal Circuit is different in that it is vested with exclusive jurisdiction over appeals relating to specialized areas of law like patent law and administrative law. All appeals in patent infringement suits from district courts go directly to the Federal Circuit Court of Appeals.

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40. § 1292(a) reads: The courts of appeals shall have jurisdiction of appeals from: (1) [i]nterlocutory orders of the district courts of the United States ... or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court ... § 1292(a).
41. See Medtronic AVE, Inc. v. Advance Cardiovascular Sys., Inc., 247 F.3d 44, 52-53 (3d Cir. 2001)52-53 (an appeal from a district court order denying a motion to stay a patent infringement suit is not appealable as an interlocutory injunction under Section 1292); Kansas Gas & Elec. Co. v. Westinghouse Elec. Corp., 861 F.2d 420, 422 (4th Cir. 1988) (a district court’s order denying a motion to compel arbitration has an injunctive effect and is appealable under Section 1292 as an interlocutory order).
42. See supra note 42.
43. 28 U.S.C. § 1292(c)(1) (2006): The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction— (1) of an appeal from an interlocutory order or decree described in subsection (a) or (b) of this section in any case over which the court would have jurisdiction of an appeal under section 1295 of this title ... .
45. Id. ("The court's jurisdiction consists of administrative law cases (55%), intellectual property cases (31%), and cases involving money damages against the United States government (11%).").
Court of Appeals. Congress created the Federal Circuit in 1982 out of the growing need to promote technology, divide labor and caseloads, and the realization that the federal system, prior to the Federal Circuit, was hostile towards patent law. The Federal Circuit was also created in part to make judges with a background or expertise in patent law available in patent cases. Essentially, having a judge with expertise in patent infringement law ensures fairness to both parties and conserves judicial resources.

Cases appealing the merits of a patent dispute are undoubtedly appropriate in the Federal Circuit. However, many cases like Industrial Wire, with underlying patent claims, leave the appellate court system to dispute whether the circuit court of appeals or the Federal Circuit has jurisdiction. In the instant case, the Eighth Circuit was faced with the challenge of deciding whether an order denying a motion to compel arbitration qualified as an injunction under Section 1292(a), in light of the split of authority among the circuit courts of appeal, as well as the Federal Circuit.

The Fourth Circuit, for example, has viewed orders compelling or denying arbitration as injunctions for the purposes of appeals under 1292(a)(1). In two cases, the Fourth Circuit stated that the denial of a motion to compel arbitration had the practical effect of the denial of an injunction, in that refusing to give the arbitration agreement full effect could cause serious damage or irreparable harm to the parties under 1292(a)(1).

Federal Circuit precedent falls in line with the Fourth Circuit. The Federal Circuit determined in Microchip Tech., Inc. v. U.S. Phillips Corp., that orders compelling arbitration are, in effect, mandatory injunctions and thus, the Federal Circuit has exclusive jurisdiction. On appeal, after the district court denied Phillips’ motion to compel arbitration, the Federal Circuit began by examining relevant appellate jurisdiction law. The Federal Circuit looked to Sinclair Refining Co. v. Atkinson, a case decided by the U.S. Supreme Court where the Court held...
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that an order compelling arbitration is essentially a mandatory injunction. After determining the order was injunctive in nature, the Federal Circuit cited Gulfstream Aerospace Corp. v. Mayacamas Corp., in which the U.S. Supreme Court held that an "order that has the practical effect of granting or denying an injunction" would only be appealable under Section 1292(a)(1) if it had a "serious, perhaps irreparable, consequence." The Federal Circuit noted that prior to the congressional enactment of Section 16 of the FAA, "some regional circuits concluded that the denial of an order to compel arbitration did not have such consequences." The enactment of Section 16 resolved this problem by providing for interlocutory review of grants or denials of motions to compel, thereby allowing the Federal Circuit in Microchip Technology to hold that it had exclusive jurisdiction under Section 1292(a)(1).

Several circuit courts have agreed in part with the Fourth Circuit, holding that orders compelling or denying arbitration do resemble injunctions, but are not appealable under Section 1292(a)(1). For example, the Seventh Circuit has held that though orders to arbitrate do resemble mandatory injunctions, they are more akin to procedural errors and thus, are not appealable under Section 1292(a)(1). On the other end of the spectrum is the Third Circuit's opinion, holding that the Federal Circuit does not possess exclusive jurisdiction over interlocutory appeals. In Medtronic AVE, Inc. v. Advanced Cardiovascular Systems, Inc., the Third Circuit held that its jurisdiction was vested in 28 U.S.C. § 1294(1), which granted jurisdiction to the regional circuit court of appeals for that district. In that case, Advanced Cardiovascular Systems sought a motion for a stay of patent infringement litigation pending arbitration pursuant to 9 U.S.C § 3. The district court denied the motion and an appeal was brought before the Third Circuit Court of Appeals. The Third Circuit specifically denied that the Federal Circuit Court of Appeals would have jurisdiction under 28 U.S.C. § 1292(c)(1), which incorporates Section 1292(a) by reference. The court reasoned that its decision was in harmony with the weight of authority.

57. Id. at 1354-55 (citing Gulfstream Aerospace Corp. v. Mayacamas Corp., 485 U.S. 271, 287-88 (1988)).
58. Id. at 1355.
60. Microchip Tech., Inc., 367 F.3d at 1354.
61. See, e.g., In re Hops Antitrust Litigation, 832 F.2d 470, 473 (8th Cir. 1987); Matterhorn, Inc. v. NCR Corp., 763 F.2d 866, 870 (7th Cir. 1985); Hartford Fin. Sys., Inc. v. Fla. Software Servs., Inc., 712 F.2d 724, 729 (1st Cir. 1983) and Lummus Co. v. Commonwealth Oil Ref. Co., 297 F.2d 80, 86 (2d Cir. 1961), cert. denied, 368 U.S. 986 (1962).
63. § 1294 (2006) states: "[A]ppeals from reviewable decisions of the district court . . . shall be taken to the court of appeals . . . (1) . . . for the circuit embracing the district."
65. Id. at 48; see also 9 U.S.C. § 3 ("Stay of Proceedings where issue therein referable to arbitration.").
67. Id. at 53.
68. Id. at 52 (citing McLaughlin Gormley King Co. v. Terminix Int'l Co., 105 F.3d 1192, 1193-94 (8th Cir. 1997) and Cofab, Inc. v. Philadelphia Joint Bd., 141 F.3d 105, 108-09 (3d Cir. 1998)).
Congress enacted the FAA to provide parties that have agreed to arbitrate with speedy arbitration, free of undue delay or obstruction of the courts. 69 Accordingly, the FAA limits the district court’s role in a challenge to an arbitration agreement to deciding whether “the making of the agreement for arbitration or the failure to comply therewith” is at issue. 70 As to whether the “making of the agreement for arbitration” is at issue, the Eighth Circuit asks two questions: 1) whether the agreement for arbitration was validly made; and 2) whether the arbitration agreement applies to the dispute at hand, i.e., whether the dispute falls within the scope of the arbitration agreement. 71 Like Industrial Wire, Medcam Inc. v. MCNC involved a dispute not as to whether the arbitration agreement was validly made, but as to whether Medcam’s claims fell within the scope of the arbitration clause. 72 Medcam entered into an agreement with MCNC that restricted the parties’ ability to transfer medical technology and compete for a period of two years after the termination of the agreement. 73 The trial court granted Medcam’s motion to compel arbitration, and on appeal, the Eighth Circuit affirmed the district court’s decision. 74 The Eighth Circuit reasoned that the arbitration clause of the agreement was susceptible to an interpretation that encompassed Medcam’s claims. 75 Eighth Circuit precedent supports a liberal interpretation of arbitration agreements, “with any doubts resolved in favor of arbitration.” 76 The court in Medcam rationalized its decision by stating that an order compelling arbitration “should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute.” 77 Whether the dispute is within the scope of arbitration is decided by applying the “federal substantive law of arbitrability, applicable to any arbitration agreement within the coverage of the [FAA].” 78 The Supreme Court, in Moses H. Cone Memorial Hospital v. Mercury Construction Co., first established that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration. 79 In Moses H. Cone, a contractor sought to compel arbitration under the FAA in its dispute with a hospital. 80

71. Medcam Inc. v. MCNC, 414 F.3d 972, 974 (8th Cir. 2005); see also Bob Schultz Motors, Inc. v. Kawasaki Motors Corp., 334 F.3d 721, 726 (8th Cir. 2003) (citing Houlihan v. Offerman & Co., 31 F.3d 692, 694-95 (8th Cir. 1994)); Twin City Monorail, Inc. v. Robbins & Myers, Inc., 728 F.2d 1069, 1072 (8th Cir. 1984) (stating that arbitration is a matter of contract law and that, absent an arbitration agreement regarding the particular dispute, a party may not be required to submit the dispute to arbitration) (citing United Steelworkers v. Warrior & Gulf Navigation Co., 363 U.S. 574, 582 (1960)).
72. Medcam Inc., 414 F.3d at 975.
73. Id. at 974. Specifically, the agreement provided for “[a]ll disputes, controversies or differences arising out of or in connection with this Agreement.” Id. (emphasis added).
74. Id. at 976.
75. Id.
76. Id. at 975 (citing Lyster v. Ryan’s Family Steak House, Inc., 239 F.3d 943, 945 (8th Cir. 2001)).
77. Medcam Inc., 414 F.3d at 975 (quoting Lyster, 239 F. 3d at 945 (internal citations omitted)).
District Court for the Middle District of North Carolina denied arbitration pending disposition of the state action, the contractor appealed. On appeal, the Court of Appeals for the Fourth Circuit reversed and remanded with instructions for entry of an order to arbitrate. The U.S. Supreme Court then took the case on certiorari to decide whether the court of appeals acted within its discretion. The Supreme Court found that the court of appeals acted within its authority "in order to facilitate the prompt arbitration that Congress had envisaged." The Court recognized that the policy of the FAA requires a liberal reading of arbitration agreements. The Court also recognized Congress' intent behind the FAA to move parties to an arbitrable dispute out of court and into arbitration as quickly as possible. Moses H. Cone laid the foundation for the current policy of promoting arbitration whenever possible. Specifically, arbitration should be promoted with respect to doubts concerning the scope of arbitrable issues in the court systems, regardless of whether the issue pertains to an arbitrability defense or contract language construction.

IV. INSTANT DECISION

In the instant case, the Eighth Circuit noted that in a previous non-patent case, it had already rejected the argument that Section 1292(a)(1) grants jurisdiction to appellate courts for review of denials of motions to compel arbitration because of their alleged "injunctive effect." The Eighth Circuit held that because the order was neither injunctive nor final, the Federal Circuit did not have exclusive jurisdiction over the appeal. Left to find a basis for its jurisdiction, the Eighth Circuit followed the reasoning set forth by the Third Circuit in Medtronic AVE, Inc. v. Advanced Cardiovascular Systems, Inc. The Eighth Circuit stated that it had jurisdiction under Section 1294(1), which provides that "an appeal from a reviewable decision of a district court shall be taken to the court of appeals for the circuit embracing the district." In addition, the court relied on 9 U.S.C. § 16(a)(1), which renders the denial of a motion to compel arbitration appealable.

After the district court denied Costco's motion to compel arbitration and the Eighth Circuit determined it had jurisdiction under Section 1294(1), the court turned to deciding the merits of the case and reviewing the denial de novo, based

81. Id. at 7-8.
82. Id. at 8.
83. Id. at 4.
84. Id. at 29.
85. Id. at 24.
86. Moses H. Cone, 460 U.S. at 22.
87. See, e.g., Southland Corp. v. Keating, 465 U.S. 1, 10 (1983) ("Congress declared a national policy favoring arbitration and withdrew the power of the states to require a judicial forum for resolution of claims which the contracting parties agreed to resolve by arbitration."); Moses H. Cone, 460 U.S. at 24-25.
88. Indus. Wire Prods., Inc. v. Costco Wholesale Corp., 576 F.3d 516, 520 (8th Cir. 2009) (citing McLaughlin Gormley King Co. v. Terminix Int'l Co., 105 F.3d 1192, 1193 (8th Cir. 1997)).
89. Id.
90. Id.
91. Id. (internal citations omitted); see also 28 U.S.C. § 1294(1).
92. Indus. Wire, 576 F.3d at 520; see also 9 U.S.C. §16(a)(1).
on contract interpretation. The Eighth Circuit did not expressly reject the district court’s reasons for denying the motion, but instead pointed out that the district court failed to address and analyze the second paragraph of the relevant arbitration provision. The Eighth Circuit interpreted the second paragraph, which was not analyzed by the lower court, as allowing for arbitration of patent disputes. The second paragraph used additional language to describe what was covered by the agreement, including the use of the term “distribution rights” as well as the phrase “any applicable law.” The Eighth Circuit supported the district court’s analysis of the first paragraph, but pointed out that the lower court failed to analyze the additional relevant arbitration provisions that were specifically cited by Costco in its memorandum in support of its motions. The Eighth Circuit first looked to Webster’s definition of “distribution” and found that IWP’s infringement claim could reasonably relate to Costco’s right to distribute. The Eighth Circuit also relied heavily on its precedent in Medcam, and found that because the provision was ambiguous, and any doubts in contract interpretation are resolved in favor of arbitration, the arbitration clause covered the patent infringement issue at hand.

V. COMMENT

A. Jurisdiction

In the present case, the U.S. Court of Appeals for the Eighth Circuit resolved uncertainty as to two different issues. First, which federal court of appeals had jurisdiction over an appeal from a denial of a motion to compel arbitration; second, under what authority that court was vested with jurisdiction. Additionally, the court included the patent infringement claim as arbitrable by broadly interpreting the parties’ contract provision. The parties’ contract provision, as discussed above, called for arbitration with respect to matters relating to the distribution rights of any of the parties. This decision maintained the policy goals of Section 16 of the FAA and followed Supreme Court and Eighth Circuit precedent.

Courts have historically been divided with regard to interpreting and classifying orders to compel or deny arbitration. Although the Eighth Circuit has pre-

94. *Id.* at 521.
95. *Id.*
96. *Id.*
97. *Id.* at 520-21.
98. *Id.* at 521 (The Court looked to the definition of distribution provided in Webster’s Third New International Dictionary: “distribution” means the “marketing or merchandising of commodities”).
99. *Medcam Inc. v. MCNC*, 414 F.3d 972, 975 (8th Cir. 2005) (finding that Medcam’s claims fell within the scope of the arbitration agreement because the scope of the arbitration agreement is given a liberal interpretation and any doubts in contract interpretation are resolved in favor of arbitration).
100. *Indus. Wire*, 576 F.3d at 521.
101. See *id.* at 520-21.
102. *Id.* at 521.
103. *Id.*
105. See *supra* Part III.A.
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previously noted that it does not consider motions to compel arbitration as having “injunctive effect,”106 this was the first case in which the Eighth Circuit expressly declared its appellate jurisdiction over these motions, stating its power is vested in both Section 1294(1) and 9 U.S.C. Section 16(a)(1).107 The court looked to its previous analysis in McLaughlin Gormely King Co., in which it discussed the idea that a motion to stay allows time to resolve the arbitration dispute and does not constitute an injunction.108 In actuality, that resolution process furthers the efficiency and process of the litigation and/or arbitration.109 Thus, the Eighth Circuit found neither it, nor the Federal Circuit, had appellate jurisdiction from a final or interlocutory order.110 Therefore, after ruling out the other sources of appellate jurisdiction described above, the Eighth Circuit was left to find jurisdiction within Section 1294(1).111

The decision to keep questions of arbitrability on appeal within the regional appellate circuit court put any uncertainty surrounding this jurisdictional issue to rest. The Eighth Circuit was, therefore, left to rely on this decision in the future for guidance. This case will also provide clarity for future cases, similar to this one, that involve both underlying federal circuit subject matter, like patent infringement, and arbitration provisions. To prevent confusion, the court properly distinguished between the underlying merits of the case concerning patent infringement, and the contract interpretation issue on appeal.112

The Eighth Circuit rationalized its jurisdictional decision by following the Third Circuit’s reasoning in Medtronic:113 The court stated that the outcome was practical, due to the fact that the court’s purpose on appeal was to decide the issue of arbitrability and contract validity, rather than patent law.114 Given that the Eighth Circuit would not decide any issues of patent law on appeal, or any specified law in which the Federal Circuit maintains its expertise, the Eighth Circuit’s argument made sense from a policy perspective. Had the Eighth Circuit taken the case on appeal and subsequently decided issues wholly reserved for the Federal Circuit, such as patent law, the court’s argument of practicality would fail and the outcome could potentially have been harmful for both parties.115 However, if the Federal Circuit would apply regional, circuit law to questions of arbitrability while considering the case on appeal, why burden the Federal Circuit with a matter that would be a better fit for the regional circuit courts?

A strong argument can be made that the Federal Circuit would be better suited to spend its limited time deciding matters within its expertise.116 Designat-

106. See McLaughlin Gormely King Co. v. Terminix Int’l Co., 105 F.3d 1192, 1193 (8th Cir. 1997).
107. Indus. Wire, 576 F.3d at 520.
108. Id.
109. See McLaughlin Gormely King Co., 105 F.3d at 1193.
110. Indus. Wire, 576 F.3d at 520.
111. Id.
112. Id. at 520 n.4.
113. Id. at 520.
114. Id. at 520 n.4.
116. Patent appeals, an area reserved exclusively for the Federal Circuit, are extremely complex and lengthy appeals and the court should focus on providing quicker patent appeals rather than take on new subject areas, like contract interpretation. For example, advocates of giving the Federal Circuit discretion over whether to hear an interlocutory patent litigation appeal state that the pendency of patent
ing arbitration orders as interlocutory appeals would give the Federal Circuit jurisdiction and burden the circuit with contract interpretation. Allowing the Federal Circuit to decide matters relating to contract interpretation is problematic because the Federal Circuit could and should be investing its time and energy in other complex matters.\(^{117}\)

In 2007, Congress considered a patent reform bill that would grant the Federal Circuit jurisdiction over interlocutory appeals of patent claim construction rulings from the district court level.\(^ {118}\) Chief Judge Michel of the Federal Circuit wrote to Congress on behalf of the Federal Circuit expressing his concern that this grant of jurisdiction would overburden the appellate court and prove to be unfeasible in the long term.\(^ {119}\) Chief Judge Michel’s response in 2007 supports an inference that, had the Eighth Circuit established that the Federal Circuit had exclusive jurisdiction in this case, the Federal Circuit ultimately might not have been capable of handling the subsequently heavier docket. It is also reasonable to conclude that if the Federal Circuit were to allow interlocutory appeals, patent claim construction appeals would likely have priority over arbitration contract interpretation as those appeals are more appropriately decided by the Federal Circuit.\(^ {120}\) This could potentially result in arbitration proceedings losing one of their greatest benefits—quick resolution of disputes.

This outcome also makes sense because it gives the parties involved greater certainty in predicting the outcome of any contract disputes on appeal.\(^ {121}\) The Federal Circuit Court of Appeals, faced with the task of applying Eighth Circuit contract interpretation, may misinterpret the law. This would result in error and


117. See Crissa Cook, *Constructive Criticism: Phillips v. AWH Corp. and the Continuing Ambiguity of Patent Claim Construction Principles*, 55 KAN. L. REV. 225, 231-32 (2006) (stating patent claim construction involves determining the meaning or definition of patent claim terms to determine whether infringement has occurred) (patent claim construction is a “special occupation, requiring, like all others, special training or practice.”). If patent claim construction requires judges with special knowledge relating to patent claim construction, like those in the Federal Circuit, and additionally, the volume of patent cases on appeal in the Federal Circuit is causing the appeals to become too lengthy, it reasonably follows that the Federal Circuit is better suited to invest its time in deciding the many patent cases on appeal rather than contract interpretation issues that could be decided by regional appellate courts for that district.


inconsistency in Federal Circuit Court rulings. If a party involved in an arbitration dispute knows which appellate court will have jurisdiction over its appeal, that party can better predict the outcome based on that court’s precedent. If a party can decide whether or not to appeal by taking into account the regional circuit court of appeals’ precedent and style in governing contract validity, that party is then equipped to make an efficient and financially wise decision when deciding whether or not to appeal the decision at the district court level.122

B. Decision on the Merits

In interpreting whether the patent infringement suit fell within the scope of the agreement to arbitrate, the court relied heavily on congressional and federal intent, including previous U.S. Supreme Court and Eighth Circuit decisions.123 Congress deemed the FAA necessary in order to place arbitration agreements upon the same footing as other contracts by ending the judiciary’s long-standing refusal to enforce agreements to arbitrate.124 Because arbitration is a creature of contract, the first question a district court should ask is whether the arbitration agreement is valid. Second, the court should determine whether the dispute falls within the contract terms.125 The question of whether the parties agreed to arbitrate is governed by general contract principles that look to the parties’ intentions.126 Whether the dispute is within the scope of arbitration is decided by applying the “federal substantive law of arbitrability, applicable to any arbitration agreement within the coverage of the [FAA].”127 The Supreme Court has interpreted the FAA as establishing that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration.128

The contract provision in this case was given a liberal interpretation, which falls in line with Eighth Circuit authority. Eighth Circuit authority requires that any doubts regarding arbitrability be resolved in favor of coverage under the agreement unless it can be said “with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute.”129 The Eighth Circuit reasonably believed that, based on the definition of “distribu-

122. “The certainty generated by precedent, as has often been observed, enables citizens to obtain definite advice on how to order their affairs.” NEIL DUXBURY, THE NATURE AND AUTHORITY OF PRECEDENT 160-61 (2008). When courts decide consistently on the same facts they not only provide us with important information for the purposes of organizing our individual affairs, but also make it more likely that citizens generally will negotiate the legal system with confidence. Id.
123. See infra notes 125-126.
125. See Mitsubishi Motors Corp., 473 U.S. at 626.
129. Indus. Wire Prods., Inc. v. Costco Wholesale Corp., 576 F.3d 516, 520-21 (8th Cir. 2009) (quoting Medcam Inc. v. MCNC, 414 F.3d 972, 975 (8th Cir. 2005)).
IWP’s infringement claims reasonably related to Costco’s right to distribute the Interlocking Shoe Organizer, which IWP believed violated its intellectual property rights. The Eighth Circuit correctly noted that because it had doubts as to whether the infringement claim fell within the arbitration provision, the provision should be held to include the claim.

Despite the Eighth Circuit’s failure to expressly state that party intentions were considered, it can be inferred and is in fact likely, that Industrial Wire and Costco’s intentions at the time of contract formation were considered. This probably factored into the inclusion of the infringement claim in the agreement. The contract interpretation was governed by federal law requiring that the parties’ intentions be ascertained and considered at the time of contract interpretation.

Party intentions are considered because one of the goals of contract law is to ensure that parties are able to make arrangements for the future and to assess and allocate the risk of doing business. If the parties originally intended to arbitrate all disputes for convenience, speed, and financial reasons, it should follow that they also likely intended the arbitration provision to include patent disputes, which are notoriously lengthy and extremely expensive.

Although the court based its decision strictly on arbitrable contract interpretation precedent, it is worth noting that the end result is also potentially favorable for the parties in terms of saving time and money in a typically lengthy and expensive patent, infringement suit. By having the parties arbitrate the infringe-

130. The Court looked to the definition of distribution provided in Webster’s Third New International Dictionary: “distribution” means the “marketing or merchandising of commodities.” Indus. Wire, 576 F.3d at 521.
131. Id.
132. Specifically, the Eighth Circuit stated that paragraph 27.2 “at best, plainly requires arbitration of IWP’s claims” and “at worst the provision is ambiguous and susceptible of an interpretation covering that covers IWP’s claim.” Indus. Wire, 576 F.3d at 521.
133. Paragraph 27.2 of the arbitration agreement between Costco and IWP states that “[IWP] acknowledges and agrees that . . . this agreement to arbitrate covers, without limitation, any claims with respect to matters relating to the distribution rights of any of the parties arising under this Import Agreement or any applicable law.” Id. at 518. The validity of the arbitration agreement was not at issue and the Eighth Circuit stated that at worst, this broad language (of paragraph 27.2) was susceptible of an interpretation covering IWP’s claims of infringement. Id. at 521.
136. See mike turner, the future of the corroboration requirement in patent law: Why a clear, strict Standard Benefits All, 2008 u. ill. l. rev. 1319, 1349 (2008). But see lim, supra note 115, at 181 (“The adversarial nature of the relationship between parties is a defining characteristic of most patent disputes.”).
137. Indus. Wire, 576 F.3d at 521.
138. Aaron Pereira, Licensing Technology to the Brics: The Case for ADR, 11 cardozo j. conflict resol. 235, 242-43 (2009) (stating that the relief awarded is often not worth the expense and time of litigation). Patent litigation is a time-consuming procedure that can often result in lost opportunities and can last from 1.12-12.3 years after the patent application was filed. Id. In 2005, the American Intellectual Property Association reported that the average cost (including appeal) of a patent case was $2 million, trademark litigation was $700,000 and other IP litigation was between $440,000 and $1

https://scholarship.law.missouri.edu/jdr/vol2010/iss2/10
ment claim, this decision is also favorable in that it relieves the overburdened, specialized Federal Circuit court, which hears patent disputes regularly. The idea of using alternative dispute resolution, specifically arbitration, to resolve patent disputes is growing among scholars and the legal community. Many scholars believe that subjecting patent infringement suits to arbitration proceedings would enhance the U.S. patent system, encourage innovation among inventors, and reduce the overhead costs of overburdened federal courts. Certain arbitrators are skilled and knowledgeable in patent law and the use of arbitration in patent law litigation provides speedy decisions and saves both parties enormous expense. Many of the goals of the FAA are also aligned with 35 U.S.C. § 294, which governs patent arbitration. Both aim to give parties the fastest and cheapest alternative to litigation, while at the same time providing relief to courts.

The Eighth Circuit’s decision to include the infringement claim within the arbitration agreement promoted FAA policies and promoted the idea of using ADR techniques to resolve current problems in patent litigation, as discussed above. Additionally, the Eighth Circuit’s decision to include the infringement claims by interpreting the arbitration agreement broadly likely represented IWP and Costco’s intentions at the time they drafted their arbitration agreement. Specifically, an inference can be drawn that, because the agreement called for distribution disputes to be resolved through arbitration, the parties likely desired to arbitrate intellectual property disputes as well.

VI. CONCLUSION

In spite of the split in authority among the circuit courts of appeals, the Eighth Circuit provided clarity and predictability in holding that it was vested with jurisdiction over the district court’s denial of Costco’s motion to compel arbitration. In deciding it was vested with jurisdiction under 9 U.S.C § 16(a)(1) and Section 1294, and in rejecting the “injunctive” theory that the Fourth and Federal Circuit
propose, the court denied the Federal Circuit exclusive jurisdiction to hear the appeal. This case has practical implications, as it gives the regional circuit court of appeals the ability to consider matters that are more appropriate and efficient for it to decide, such as contract interpretation.

In vesting jurisdiction in the Eighth Circuit, the court left the Federal Circuit with a greater ability to devote its resources and energy to the complex subject matter within its exclusive jurisdiction. Passing the case to the Federal Circuit would arguably have wasted the Federal Circuit's resources as the Federal Circuit would not have been given an opportunity to apply its expertise in patent law to the dispute at hand, but would have merely applied regional, federal, contract law. Applying regional, federal, contract law is a task that the Eighth Circuit was better equipped to handle, given that Eighth Circuit precedent was applied in construing the arbitration provision between IWP and Costco.

The Eighth Circuit, in liberally construing arbitration provisions to cover disputes, maintained precedent by reversing the district court's decision to exclude the patent infringement claim from the agreement to arbitrate. Subjecting the infringement claim to arbitration was likely in the parties' best interest as it was probably their intention to resolve all disputes efficiently and to be as financially conservative as possible. In deciding to vest itself with jurisdiction and liberally construe IWP and Costco's arbitration agreement, the Eighth Circuit promoted the conservation of judicial resources. Resolving the parties' infringement dispute through alternative dispute resolution will likely place a small relief on an already overburdened judicial system.

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146. Indus. Wire, 576 F.3d at 520.
147. Id. at 520-21.