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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

ABBVIE INC.,

Plaintiff,

v.

NOVARTIS VACCINES AND
DIAGNOSTICS, INC., et al.,

Defendants.

Case No. [17-cv-01815-EMC](#)

REDACTED/PUBLIC VERSION

**ORDER GRANTING DEFENDANTS’
MOTION TO COMPEL ARBITRATION**

Docket No. 48

United States District Court
For the Northern District of California

Plaintiff AbbVie Inc. has filed suit against Defendants Novartis Vaccines and Diagnostics, Inc. and Grifols Worldwide Operations Ltd. AbbVie seeks a declaratory judgment that certain patents owned by Novartis, or co-owned by Novartis and Grifols, are invalid.¹ Currently pending before the Court is Novartis’s motion to compel arbitration. According to Novartis, arbitration should be compelled because the parties’ predecessors entered into a license agreement regarding the patents at issue (AbbVie’s predecessor became a licensee of Novartis’s predecessor) and that agreement contains an arbitration clause providing that disputes related to the agreement shall be arbitrated. AbbVie disagrees. According to AbbVie, the license agreement expressly carves out patent validity disputes from arbitration.

Having considered the parties’ briefs and accompanying submissions, as well as the oral argument of counsel, the Court hereby **GRANTS** the motion to compel arbitration.

I. FACTUAL & PROCEDURAL BACKGROUND

In March 2002, Novartis’s and AbbVie’s predecessors (Chiron Corporation and Abbott Laboratories, respectively), entered into a license agreement. *See* Gaede Decl., Ex. A (license

¹ The patents at issue relate to the hepatitis C virus (“HCV”).

1 agreement). The license agreement is governed by California law. *See* Lic. Agmt. § 9.7
 2 (providing that the agreement “shall be governed by and shall be construed in accordance with the
 3 laws of the State of California without regard to the conflicts of laws provisions thereof”).

4 Under the agreement, Chiron gave Abbott and its affiliates a license to use certain Chiron
 5 processes – referred to in the agreement as “Licensed Processes” – in exchange for [REDACTED]
 6 [REDACTED] *See, e.g.*, Lic. Agmt. § 2.2 (granting a nonexclusive, [REDACTED] license “under the
 7 Licensed Processes . . . to make, have made, keep, use, offer to sell, and sell any and all Identified
 8 Products derived or resulting, indirectly or directly, from the Licensed Processes”). “Licensed
 9 Processes” is defined as “any process that involves the use, practice or manufacture of a Licensed
 10 Composition and/or Licensed Method.” Lic. Agmt. § 1.13. In turn, “Licensed Composition” and
 11 “Licensed Method” are defined (in essence) as compositions or methods that are covered by valid
 12 patent claims. More specifically:

- 13 • “Licensed Composition” is defined as “any composition, the making, using, selling,
 14 keeping, offering for sale, importing or exporting thereof would, but for the license granted
 15 herein infringe any Valid Claim within Chiron Patent Rights.” Lic. Agmt. § 1.11.
- 16 • Similarly, “License Method” is defined as “any method or process, the practice of which
 17 would, but for the license granted herein, infringe a Valid Claim of the Chiron Patent
 18 Rights, (including, without limitation, the manufacture, use, sale, keeping, offer for sale,
 19 important or exportation of a product which would infringe any such Valid Claim).” Lic.
 20 Agmt. § 1.12.

21 “Valid Claim” is defined in § 1.25 of the license agreement as “any claim of an issued (or
 22 granted) and unexpired patent which has *not been held unenforceable, unpatentable or invalid by*
 23 *a decision of a court or governmental agency of competent jurisdiction.*” Lic. Agmt. § 1.25
 24 (emphasis added).

25 The license agreement between Chiron and Abbott contains, *inter alia*, an arbitration
 26 clause to cover certain disputes between the companies. The arbitration clause can be found in
 27 two different places: § 9.8 of the agreement and Exhibit 9.8 of the agreement.

- 28 • Section 9.8 of the agreement specifies: “If the parties are unable to resolve *any dispute*

1 validity disputes arising out of license agreements [35 U.S.C. §
2 294²][,] if the parties had wished to exclude disputes regarding
3 patent validity from the scope of the arbitration provisions in the
4 License Agreement, they would have had to have done so explicitly.

5 Mot. at 17. According to Novartis, the parties would have included an exclusion-from-arbitration
6 clause within the broader arbitration clause itself if that was what was intended. *See, e.g.,*
7 *Verinata Health, Inc. v. Ariosa, Inc.*, 830 F.3d 1335, 1337 (Fed. Cir. 2016) (indicating that the
8 arbitration clause and exclusion-from-arbitration clause were within the same section or generally
9 so). Novartis continues: “Against the backdrop of well-established arbitrability law, the notion
10 that two sophisticated parties like Chiron and Abbott *agreed* to exclude validity disputes from
11 arbitration obliquely through a definition of Valid Claim is unsustainable.” Mot. at 19 (emphasis
12 in original). Novartis reconciles the “Valid Claim” provision by arguing that it “is most naturally
13 read to refer to challenges *by third parties* which result ‘in a decision of a court or government
14 agency’ that a claim is invalid.” Mot. at 20 (emphasis in original). “[V]alidity challenges *by*
15 *AbbVie* are [still] to be decided in arbitration,” although there could still be “judicial confirmation
16 [of an arbitrator’s decision on validity] in any proceeding[] involving Novartis and AbbVie.”
17 Mot. at 20 (emphasis in original).

18 B. Ambiguity

19 Resolution of the arbitration motion ultimately turns on whether the plain language of the
20 license agreement is clear or ambiguous. If there is ambiguity in the agreement, then Novartis
21 should prevail because, as the Ninth Circuit has explained,

22 “where the contract contains an arbitration clause, there is a
23 presumption of arbitrability.” “[A]n order to arbitrate the particular
24 grievance should not be denied unless it may be said with positive
25 assurance that the arbitration clause is not susceptible of an

26 _____
27 ² Section 294(a) provides:

28 A contract involving a patent or any right under a patent may
contain a provision requiring arbitration of any dispute relating to
patent validity or infringement arising under the contract. . . . Any
such provision or agreement shall be valid, irrevocable, and
enforceable, except for any grounds that exist at law or in equity for
revocation of a contract.

35 U.S.C. § 294(a).

1 interpretation that covers the asserted dispute. Doubts should be
 2 resolved in favor of coverage.”

3

4 Under California contract law,³ “if the language [of a contract] is
 5 *clear and explicit*, and does not involve an absurdity” the language
 6 must govern the contract’s interpretation. Moreover, when a
 7 contract is written, “the intention of the parties is to be ascertained
 8 from the writing alone, if possible.” “[I]f reasonably practicable” a
 9 contract must be interpreted as a whole, “so as to give effect to
 10 every part, . . . each clause helping to interpret the other.” *However,*
 11 *“[i]f a contract is capable of two different reasonable*
 12 *interpretations, the contract is ambiguous,” and under the federal*
 13 *presumption in favor of arbitration, an arbitrator would have*
 14 *jurisdiction to arbitrate claims.*

15 *Comedy Club, Inc. v. Improv W. Assocs.*, 553 F.3d 1277, 1284-85 (9th Cir. 2009) (emphasis
 16 added; citing, *inter alia*, *AT&T Techs., Inc. v. Commc’s Workers of Am.*, 475 U.S. 643, 650
 17 (1986)). In short, ambiguity in a contract under California law – *i.e.*, where there are two
 18 reasonable interpretations – must be resolved in favor of arbitration under federal law.⁴

19 *Comedy Club* is an instructive example of how ambiguity in a contract, as determined
 20 under applicable state law (California), must be resolved in favor of arbitration under the FAA.
 21 The plaintiff in *Comedy Club* had entered into a trademark license agreement with the defendant
 22 (*e.g.*, to use the “Improv” mark). Under the agreement, the plaintiff had an exclusive nationwide
 23 license to use the defendant’s trademarks in connection with the opening of new comedy clubs.
 24 *See id.* at 1281. The agreement contained an arbitration clause which provided in relevant part as
 25 follows:

26 “All disputes relating to or arising under this Agreement or the Asset
 27 Purchase Agreement shall be resolved by arbitration
 28 Notwithstanding this agreement to arbitrate, the parties, in addition
 to arbitration, shall be entitled to pursue equitable remedies and
 agree that the state and federal courts shall have exclusive
 jurisdiction for such purpose and for the purpose of compelling
 arbitration and/or enforcing any arbitration award.”

³ As noted above, the license agreement in the instant case is governed by California law.

⁴ At the hearing, AbbVie admitted that no court has held that a patent case is outside the framework established by *AT&T* – *i.e.*, that there is a presumption of arbitrability where an agreement contains an arbitration clause and arbitration should be compelled “unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute.” *Comedy Club*, 553 F.3d at 1284 (quoting *AT&T*, 475 U.S. at 650).

1 *Id.* at 1181-82.

2 After the plaintiff breached the agreement (by failing to open new comedy clubs), the
3 defendant sent the plaintiff a letter stating that the plaintiff was in default and that the defendant
4 was withdrawing the license to use the defendant’s trademarks. In response to the letter, the
5 plaintiff filed an action for declaratory relief only. The defendant responded by filing a demand
6 for arbitration, seeking damages. *See id.* at 1282.

7 The district court issued an order compelling the parties to arbitrate. On appeal, the
8 plaintiff’s first argument was that the district court had erred in compelling arbitration. The Ninth
9 Circuit held that it lacked jurisdiction to hear that part of the plaintiff’s appeal because it was not
10 timely made. *See id.* at 1284. Confronted with this problem, the plaintiff argued next that the
11 district court had erred in later confirming the arbitration award. According to the plaintiff, the
12 arbitrator lacked authority to arbitrate the equitable claims. *See id.* In support of this position, the
13 plaintiff pointed to the provision in the parties’ agreement that, “[n]otwithstanding this agreement
14 to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and
15 agree that *the state and federal courts shall have exclusive jurisdiction for such purpose* and for
16 the purpose of compelling arbitration and/or enforcing any arbitration award.” *Id.* at 1281-82
17 (emphasis added). The plaintiff asserted that this provision “is explicit that only state and federal
18 courts, and not an arbitrator, have jurisdiction over equitable claims.” *Id.* at 1285.

19 The defendant argued in response that the provision “only carved out equitable claims ‘in
20 aid of arbitration’ to maintain the status quo between the parties pending arbitration.” *Id.* In other
21 words, the authority of the arbitrator to decide all disputes under the parties’ agreement was not
22 “supplant[ed].” *Id.*

23 Applying California law on interpretation of contracts, the Ninth Circuit held that the
24 defendant’s interpretation of the provision was plausible. It began by noting that

25 [t]here are three relevant clauses in the arbitration agreement: (1)
26 “[a]ll disputes relating to or arising under this Agreement . . . shall
27 be resolved by arbitration”; (2) “[n]otwithstanding this agreement to
28 arbitrate, the parties, in addition to arbitration, shall be entitled to
pursue equitable remedies and agree that the state and federal courts
shall have exclusive jurisdiction for such purpose and for the
purpose of compelling arbitration and/or enforcing any arbitration

award”; and (3) “[t]he prevailing party in any arbitration or action to enforce this Agreement . . . shall be entitled to its costs, including reasonable attorneys fees.”

Id. The court continued:

A natural reading of clause two lends plausibility to [the defense] theory. The language “in addition to arbitration” in clause two suggests that arbitration still applies to all disputes, but that in addition, the parties are “entitled to pursue equitable remedies” before courts. *If the parties intended to carve out an exception to arbitration for all equitable claims, they could have done so without the language “in addition to arbitration.”* Because the parties included this language, it is plausible and a permissible contract interpretation that the equitable claims exception in clause two was intended to apply only to claims designed to maintain the status quo between the parties. Stated another way, it was a rational interpretation of the agreement to say that the arbitrator could decide both equitable and legal claims and that the provision for court jurisdiction on equitable matters was ancillary to the arbitration. Moreover, the Federal Arbitration Act provides a court with the ability to stay “trial of [an] action until such arbitration has been had,” but it does not give a court the authority to issue equitable remedies, such as a temporary injunction, to maintain the status quo between the parties. Thus, it makes sense that if the parties wanted to give themselves the ability to seek temporary equitable remedies in courts while arbitration was ongoing, they would add such a clause to the arbitration agreement.

To support its [contrary] interpretation, [the plaintiff] cites language in clause three that awards costs and attorneys fees to “the prevailing party in any arbitration or action to enforce this Agreement,” and phrasing in clause two that grants exclusive jurisdiction to courts for the “purpose” of “equitable remedies.” *These phrases, although consistent with [the plaintiff’s] reading of the arbitration agreement, are equally consistent with [the defendant’s] interpretation.* These phrases can support that the arbitration agreement lets the parties pursue equitable remedies in courts in aid of the arbitration, and gives those courts exclusive jurisdiction over, and awards costs and attorneys fees to the prevailing party in, those actions.

We conclude that the arbitration agreement is “capable of two different reasonable interpretations.” Under the federal presumption in favor of arbitration, because the arbitration agreement is ambiguous, it should be interpreted as granting arbitration coverage over “all disputes” arising from the Trademark Agreement.

Id. at 1285-86 (emphasis added); *see also NetJets Ass’n of Shared Aircraft Pilots v. NetJets Aviation, Inc.*, 601 Fed. Appx. 408, 411 (6th Cir. 2015) (stating that, “[a]lthough the arbitration provision in the [collective bargaining agreement] by its terms applies only to crewmembers, and the CBA defines crewmembers as non-management pilots, several other provisions of the CBA

1 unambiguously treat management pilots as crewmembers, making it plausible that management
2 pilots are crewmembers for purposes of the arbitration provision as well[;] [t]herefore, the
3 arbitration provision is susceptible of an interpretation that covers [the employee's] grievance").

4 C. Parties' License Agreement is Ambiguous

5 The instant case, like *Comedy Club*, involves contract interpretation under California law.
6 Under California law, whether there is an ambiguity in a contract (*i.e.*, whether an ambiguity
7 exists) is a question of law for a court to decide. *See Wolf v. Superior Court*, 114 Cal. App. 4th
8 1343, 1351 (2004). Here, the parties' license agreement is reasonably susceptible to the
9 interpretation advanced by Novartis, and thus the agreement is ambiguous.

10 As noted above, the wording of § 9.8 and Exhibit 9.8 is broad. There is no exception to
11 adjudication of validity as opposed to infringement – § 9.8 of the agreement covers “any dispute
12 regarding this Agreement” and Exhibit 9.8 “a bona fide dispute . . . which relates to either party's
13 rights and/or obligations.” Neither § 9.8 nor Exhibit 9.8 refers to or adopts § 1.25's definition of
14 “Valid Claim.” As Novartis argues, based on the backdrop of arbitration law favoring arbitration,
15 it would be odd for the parties to bury an exclusion-from-arbitration provision in the introductory
16 definitions section of the license agreement and not refer to it in the arbitration clause if an
17 exclusion from arbitration were so intended. While cross referencing could have accomplished
18 such result – *e.g.*, where the arbitration provision states that certain “Disputes” will be arbitrated
19 and “Disputes” is then defined in a different section on definition – the arbitration provisions of §
20 9.8 and Exhibit 9.8 do not incorporate the definition of “Valid Claim” in § 1.25 of the agreement.

21 AbbVie criticizes Novartis's position because (1) Novartis does not offer any extrinsic
22 evidence (other than the general backdrop of arbitration law) to support its interpretation, (2)
23 nothing requires an exclusion-from-arbitration provision to be in any specific location, and (3)
24 Novartis does not adequately explain how the “Valid Claim” provision can be reconciled. None of
25 these arguments is persuasive. While, under California law, a party may offer extrinsic evidence
26 to establish ambiguity, a party is not required to do so. *See Wolf*, 114 Cal. App. 4th at 1350.
27 Notably, AbbVie did not proffer any extrinsic evidence supporting its position either. And even
28 though an exclusion-from-arbitration provision need not be in any specific place (*e.g.*, a part of the

1 arbitration provision), the fact that the placement was in the definitions section and not in the
2 arbitration clause here nevertheless favors Novartis’s interpretation of the agreement. “If the
3 parties [had] intended to carve out an exception to arbitration for all [patent disputes], they could
4 have done so” more clearly, certainly without embedding the alleged exclusion within a
5 definitional provision. *Comedy Club*, 553 F.3d at 1285.

6 Furthermore, the “Valid Claim” provision may be reconciled with Novartis’s interpretation
7 of § 9.8 and Exhibit 9.8. “Valid Claim” is defined in the parties’ license agreement as “any claim
8 of an issued (or granted) and unexpired patent which has not been held unenforceable,
9 unpatentable or invalid by a decision of a court or governmental agency of competent
10 jurisdiction.” Lic. Agmt. § 1.25. In other words, a patent claim is valid (and therefore a license is
11 required for the patent claim) so long as a court or agency has not *previously* determined the claim
12 to be invalid. *See* Chicago Manual of Style Online § 5.126 (stating that “[t]he present perfect
13 tense is formed by using *have* or *has* with the principal verb’s past participle {have walked} {has
14 drunk}. It denotes an act, state, or condition that is now completed or continues up to the present
15 {I have put away the clothes} {it has been a long day}.”), *available at*
16 [http://www.chicagomanualofstyle.org/16/ch05/ch05_sec126.html?sessionId=85221a53-88ff-4a0a-](http://www.chicagomanualofstyle.org/16/ch05/ch05_sec126.html?sessionId=85221a53-88ff-4a0a-b655-9ecc86b83200)
17 [b655-9ecc86b83200](http://www.chicagomanualofstyle.org/16/ch05/ch05_sec126.html?sessionId=85221a53-88ff-4a0a-b655-9ecc86b83200) (last visited August 30, 2017). Once a court or agency has determined that a
18 patent claim is invalid, then there is no longer any need for AbbVie to have a license with respect
19 to the claim and [REDACTED] under the license agreement. Thus, for example, if a third party
20 challenged patent validity in a lawsuit, and a court ruled in the third party’s favor finding the
21 patent claim invalid, the patent claim would no longer be a “Valid Claim” under the agreement,
22 [REDACTED]

23 Even if validity were adjudicated in arbitration as Novartis suggests, a finding of invalidity
24 still could be given effect consistent with § 1.25. If the arbitrator ruled in AbbVie’s favor and
25 found a patent claim invalid, AbbVie could seek confirmation of the arbitrator’s invalidity ruling
26 with a court. Section 8.3(a) of the parties’ license agreement provides that, “[i]n the event ADR is
27 initiated . . . and the Neutral . . . has rendered a ruling that a party has materially breached this
28 Agreement,” then the nonbreaching party has the right to pursue “enforcement of the [Neutral’s]

1 Ruling in a court of competent jurisdiction.” Lic. Agmt. § 8.3(a)(iii)(1)-(3). Upon judicial
 2 confirmation, the patent claim would no longer be a “Valid Claim” under the agreement. Hence,
 3 the definition of “Valid Claim” in § 1.25 accommodates not only third-party court challenges to
 4 validity, but also the possibility of a direct challenge to validity in arbitration as between the
 5 parties. Accordingly, Novartis’s interpretation of the arbitration clauses in § 9.8 and Exhibit 9.8 is
 6 consistent with § 1.25.

7 AbbVie protests that, nevertheless, Novartis’s position should be rejected because a New
 8 York district court has interpreted a similar Abbott contract in the same way that AbbVie proposes
 9 here:

10 [T]he Defendant argues that any dispute is subject to the mandatory
 11 arbitration provision. (Def. Br. 12-14.) The mandatory arbitration
 12 provision governs disputes “arising under or regarding the
 13 interpretation of [the sublicensing] Agreement” (Maldonado Decl.
 14 Ex. 2 ¶ 9.12), not patent validity. The sublicensing agreement
 15 contains a separate provision stating that the enforceability or
 16 validity of a patent is subject to a holding ‘by a governmental
 17 agency or a court of competent jurisdiction.’ (*Id.* ¶ 1.11.) The
 18 sublicensing agreement here contemplates that challenges to a
 19 patent’s validity will be raised before a governmental agency or a
 20 court of competent jurisdiction, not an arbitration panel. Arbitration
 21 assumes patent validity and resolves disputes concerning the
 22 interpretation of the sublicensing agreement. The Court finds that
 23 the arbitration provision does not weigh against the Court’s exercise
 24 of jurisdiction in this action.

18 *Abbott Labs. v. Mathilda & Terence Kennedy Inst. of Rheumatology Tr.*, No. 11 Civ. 2541 (PAC),
 19 2011 U.S. Dist. LEXIS 158511, at *12 (S.D.N.Y. Oct. 14, 2011). But *Abbott* is not binding
 20 authority on this Court. In any event, it is not clear from the opinion that the parties in the case
 21 argued ambiguity. The court did not apply California law in determining whether there was an
 22 ambiguity sufficient to invoke the FAA presumption in favor of arbitration as in *Comedy Club*. In
 23 fact, it appears the agreement in *Abbott* was governed by New York law. *See Abbott Labs. v. The*
 24 *Mathilda & Terence Kennedy Inst. of Rheumatology Trust*, No. 1:11-cv-2541 (PAC) (S.D.N.Y.)
 25 (Docket No. 20-2) (Lic. Agmt. § 9.4).

26 Finally, AbbVie presents a public policy argument as to why patent validity should be
 27 adjudicated by a court, and not an arbitrator: “[P]ublic interest considerations further counsel
 28 litigation of patent validity. There is a ‘strong federal policy favoring the full and free use of ideas

1 in the public domain,’ counseling in favor of obtaining judgments that declare patents which
 2 should not have issued invalid.” Opp’n at 17. An argument can be made that patent validity
 3 should not be reserved for private arbitration given the public nature of patents and what would
 4 seem to be an inherently sovereign function of determining the validity of patents. But in enacting
 5 § 294(a), Congress made clear that patent validity may be determined in arbitration if the parties
 6 so choose. See n.2 *supra*.

7 AbbVie acknowledges the existence of 35 U.S.C. § 294(a) but argues that, under the
 8 statute, “the FAA applies in the patent context only where the underlying agreement ‘contain[s] a
 9 provision *requiring arbitration of any dispute relating to patent validity* or infringement arising
 10 under the contract.’ . . . [¶] [H]ere, AbbVie and Novartis did not include ‘a provision requiring
 11 arbitration of any dispute relating to patent validity.’” Opp’n at 17-18 (quoting § 294(a)⁵). While
 12 the Court is not without some sympathy for AbbVie’s public policy argument, its argument begs
 13 the question. If, in the instant case, the arbitration provision is interpreted so as to cover
 14 adjudication of patent validity, the FAA applies. *Cf., e.g., Rhone-Poulenc Specialties Chimiques*
 15 *v. SCM Corp.*, 769 F.2d 1569, 1571-72 (Fed. Cir. 1985) (holding that a patent infringement
 16 dispute was arbitrable based on a general arbitration provision covering “[a]ny controversy or
 17 claim arising out of or relating to this Agreement or the breach thereof”; stating that “the
 18 determination of the scope and infringement of the ‘485 patent are the quintessence of the
 19 [license] agreement and that the parties intended such central determinations to be included within
 20 the scope of its broad arbitration clause”).

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 22
 23 ⁵ The full text of § 294(a) is as follows:

A contract involving a patent or any right under a patent may
 contain a provision requiring arbitration of any dispute relating to
 patent validity or infringement arising under the contract. In the
 absence of such a provision, the parties to an existing patent validity
 or infringement dispute may agree in writing to settle such dispute
 by arbitration. Any such provision or agreement shall be valid,
 irrevocable, and enforceable, except for any grounds that exist at law
 or in equity for revocation of a contract.

28 35 U.S.C. § 294.

1 **III. CONCLUSION**

2 Novartis has provided a reasonable interpretation of the license agreement – *i.e.*, that patent
3 validity is an issue to be arbitrated under the broad arbitration provision and there is no exclusion-
4 from-arbitration provision for patent validity. The FAA’s presumption in favor of arbitration,
5 embodied in § 294(a), applies. Accordingly, Novartis’s motion to compel arbitration is hereby
6 granted. The Court stays proceedings in this case pending the arbitration. *See* 9 U.S.C. § 3.

7 This order disposes of Docket No. 48.

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9 **IT IS SO ORDERED.**

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11 Dated: August 31, 2017

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14 EDWARD M. CHEN
15 United States District Judge
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