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## INTRODUCTION

After many months of negotiation over the scope of a patent license, named defendant RSA Data Security, Inc. ("RSADSI") threatened to sue plaintiff Cylink Corporation for patent infringement. Shortly thereafter, Cylink filed this suit seeking a declaration that the patent is invalid, unenforceable, and not infringed.<sup>1</sup> Before this lawsuit was initiated, both parties (each fully aware of the license issues tendered to arbitration and the state court) believed two things: (1) that RSADSI has the right to enforce the patent in its own name; and (2) that the Federal Court is the proper forum for resolving the patent issues.

Now faced with actually having to defend the validity of its patent, RSADSI's two motions ask the court (1) to join absent parties; and (2) to enjoin permanently the arbitration of issues relating to the parties' contract dispute.

The first motion must be denied because, as a matter of law, a party who has standing to sue for infringement on a patent has standing to defend the patent in a declaratory judgment action on its own. No other parties are "necessary" to the action. It is beyond dispute that RSADSI had the right to sue in its own name; indeed it announced its intention of doing so immediately before this suit was filed. Under settled law, this is sufficient by itself to eliminate the need to join others who may have an interest – direct or indirect – in the patent.

The second motion must be denied for at least three independent reasons. First, RSADSI has presented no jurisdictional basis for invoking the Court's intervention in this matter. Second, both parties have tendered the issue of the arbitrability of their licensing dispute to the state court. Rules of comity and federalism prohibit this Court from interfering with the state court's resolution of an issue that both parties have tendered to it.

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<sup>1</sup> Cylink's First Amended Complaint, being filed concurrently with this opposition memorandum on August 19, 1994, seeks only a declaration that the patent is invalid and/or unenforceable.

Moreover, this declaratory judgment suit cannot constitute a waiver of Cylink's right to arbitrate its contract claims.

### STATEMENT OF FACTS

There are two sets of facts dispositive of RSADSI's two motions. First, RSADSI's motion to compel joinder is defeated by the fact that RSADSI had the right (and asserted the right) to sue Cylink for infringement on its own. Second, RSADSI's motion to stay arbitration is defeated by, among other things, a salient fact RSADSI fails to disclose: that both parties have tendered the arbitrability of their contract disputes to the state court. RSADSI's motion is defeated not only procedurally, but substantively, by the fact that both parties have consistently recognized that the contract issues subject to arbitration are wholly separate from the non-arbitrable patent issues. A brief review of these facts are set forth here.<sup>2</sup>

### The Parties

The original owner of the patent at issue in this case is the Massachusetts Institute of Technology ("MIT"), which granted defendant RSADSI an exclusive license to the patent, including sublicensing rights, nine days after the patent issued (Fougner Decl. ¶ 8). Subsequently, Cylink held a license, including sublicensing rights, to three patents owned by Stanford University (Id. ¶ 5). The MIT patent and the Stanford patent involved related encryption technology. Because of potential litigation concerning their respective patent rights, in 1990 Cylink and RSADSI determined to form a partnership, called Public Key Partners ("PKP"), to which the sublicensing rights to the Stanford patents and the MIT patent would be transferred (Id.). RSADSI was one of PKP's general partners; Cylink incorporated a wholly-owned subsidiary, called Caro-Kann Corporation ("CKC"), to be the other general partner of PKP (Id.). Neither Stanford, nor MIT is a partner in PKP (Id. ¶ 6,10).<sup>3</sup>

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<sup>2</sup> A more detailed explanation of the relationships among the parties and the history of their disputes is set forth in the accompanying Declaration of Robert Fougner ("Fougner Decl.").

<sup>3</sup> A diagram illustrating the relationship between the parties is attached to the Declaration of Robert Fougner as Exhibit 13.

1                                   **RSADSI's Right to Sue for Infringement of the MIT Patent**

2           When PKP was formed, the parties allocated responsibility for enforcing the MIT  
3 patent against third parties (Fougner Decl. ¶ 11, Exhs. 2 and 4.). MIT was specifically  
4 prohibited from initiating or continuing any actions for infringement of the patent on its  
5 own (Id. ¶ 13 , Exh. 4). PKP could initiate infringement actions only with the consent of  
6 its constituent partners (Id. ¶ 12, Exhs. 2 and 4). RSA, however, could maintain its own  
7 action for infringement upon notice to MIT and PKP (Id. ¶ 14, Exh. 4).

8                                   **The Parties' Contractual Disputes**

9           As part of Cylink's consideration for PKP's formation, RSADSI agreed to grant  
10 Cylink its own sublicense to "make or use or sell products" utilizing the technology  
11 described in the MIT Patent (Fougner Decl. ¶ 21). Cylink's right to a license, however,  
12 became the subject of dispute (Id.). On April 4, 1994, Cylink invoked the arbitration  
13 provisions of the agreements forming PKP to resolve the issue of Cylink's rights to a  
14 sublicense under the MIT patent (Id. ¶ 21, Exhibit A to Moore Decl.). On May 18, 1994,  
15 Cylink and CKC served an amended arbitration demand to include ongoing disputes about  
16 whether RSADSI's software licensing practices violate RSADSI's fiduciary duties to PKP  
17 (Fougner Decl. ¶ 23, Exh. B to Moore Decl.). Neither of these arbitration demands sought  
18 adjudication of whether Cylink infringes the MIT patent (Moore Decl. Exhs. A and B).

19           In reaction to Cylink's and CKC's arbitration demands, RSADSI initiated an action  
20 in the Superior Court for the County of Santa Clara. Among other relief, that suit  
21 requested the following:

22                           For issuance of a temporary restraining order, preliminary  
23 injunction, and permanent injunction restraining and enjoining  
24 defendants CKC and Cylink, each of them, their agents,  
25 servants, and employees, and all persons acting under, in  
concert with, or for them, from: [¶] proceeding with an  
arbitration pursuant to Paragraph 12.1 of the Public Key  
Partners ("PKP") Partnership Agreement . . . .

26 (Fougner Decl. ¶ 24, Exh. 5). In addition, RSADSI sought to disqualify the Hopkins &  
27 Carley law firm from representing Cylink or CKC in the arbitration, to enjoin Robert



1 Fougner from "assisting" Cylink in protecting Cylink's and CKC's interests, and to  
2 undertake certain discovery (Id.).

3 In view of RSADSI's evident opposition to arbitrate Cylink's claims, Cylink and CKC  
4 filed a Petition to Compel Arbitration (Id. ¶ 25, Exh. 6). That Petition alleged  
5 controversies over "certain rights to a patent license" and "the interpretation of certain  
6 provisions of the Intent Agreement and the Partnership Agreement" and asked the court to  
7 "order RSADSI to arbitrate the controversy as herein alleged." (Id.)<sup>4</sup> The day after Cylink's  
8 Petition was filed, RSADSI served a demand for arbitration of nine counterclaims (Id.  
9 ¶ 26).<sup>5</sup>

10 On June 29, despite the pendency of the arbitration proceedings Cylink had  
11 initiated, RSADSI served Cylink with a written notice of its election to proceed  
12 "independently of PKP" and initiate litigation against Cylink for infringement of the MIT  
13 Patent (Fougner Decl. ¶¶ 2, 15). The letter clearly demonstrates RSADSI's position that  
14 the patent claims were not arbitrable. In addition, nothing in RSADSI's letter indicates  
15 that it intended to inform or to join MIT, Stanford, CKC or PKP in the suit (Id.).  
16 Apprehensive of imminent suit by RSADSI and irreparable disruption of Cylink's business,  
17 Cylink instituted this lawsuit (Id. ¶ 16).

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19 <sup>4</sup> RSADSI's motions to disqualify, RSADSI's discovery motion, and Cylink's Petition to Compel  
20 Arbitration were fully briefed and argued on July 19 and August 9 before Judge Read Ambler of  
21 the Santa Clara County Superior Court (Fougner Decl. ¶ 28). Judge Ambler issued a ruling on  
22 August 11 granting the motion to disqualify Cylink's counsel, denying the motion to disqualify  
23 Robert Fougner, and ordering a deposition to proceed (Id.). Judge Ambler's Order determines that  
24 these issues were not arbitrable. It is unclear, however, whether Judge Ambler intended to rule  
25 that the balance of Cylink and CKC's claims are not arbitrable (Id.). The parties are seeking  
26 clarification of this issue; if Judge Ambler confirms that Cylink and CKC's Petition to Compel  
27 Arbitration was denied in its entirety, they will appeal (Id.).

28 <sup>5</sup> RSADSI's puzzling approach to the arbitration continues. On August 15, ten days after filing its  
motion asking this Court to enjoin the arbitration, RSADSI wrote to the two arbitrators who have  
been appointed so far, assuring them that "RSA is anxious to proceed with the arbitration as  
expeditiously as possible" (Fougner Decl. ¶ 27, Exh. 8). Although RSADSI's lawyers told the  
arbitrators that "we thought it was appropriate that you be informed of all current developments in  
order that the arbitration proceedings be conducted fairly," they did not deem it necessary to  
inform the arbitrators that they were asking this Court to enjoin the arbitration all together.

## ARGUMENT

### I. ALL NECESSARY PARTIES ARE BEFORE THE COURT IN THIS ACTION.

Federal Rule of Civil Procedure 19 mandates joinder of "necessary" parties, not of all conceivably interested parties. Ordinarily, a plaintiff "is free to decide who shall be parties to his lawsuit." Simpson v. Providence Wash. Ins. Group, 608 F.2d 1171, 1174 (9th Cir. 1979). Compulsory joinder under Rule 19 provides the only exception to the rule that plaintiffs may choose their adversaries. Nevada Eighty-Eight, Inc. v. Title Ins. Co., 753 F.Supp. 1516, 1522 (D. Nev. 1990); 7 C. Wright, A. Miller and M. Kane, Federal Practice and Procedure § 1602 (2d ed. 1986). If RSADSI cannot sustain its burden of showing that the absent parties are "necessary" under the rule, then Cylink's choice of defendants is entitled to deference. 7 C. Wright, A. Miller and M. Kane, Federal Practice and Procedure § 1609 (2d ed. 1986).

An absent party is "necessary" if its absence will subject those already parties to multiple or inconsistent litigation, or if the absent party itself claims rights that will, as a practical matter, be impaired if the litigation proceeds in their absence. Fed. R. Civ. Proc. 19(a). The first danger Rule 19 seeks to preclude, the risk of multiple litigation and inconsistent judgments, is avoided when it appears the lawsuit will bind the absent party. C.P. Nat'l Corp. v. Bonneville Power Admin., 928 F.2d 905, 912 (9th Cir. 1991), amended, 91 C.D.O.S. 3471 (9th Cir. 1991). The second danger, impairment of the absent party's rights, is avoided if that party is "adequately represented" in the lawsuit. Shermoen v. U.S., 982 F.2d 1312, 1318 (9th Cir. 1992), cert. denied, 113 S.Ct. 2993 (1993). Finally, the dangers contemplated under Rule 19 must be more than hypothetical: "[s]peculation about the occurrence of a future event ordinarily does not render all parties potentially affected by that future event necessary or indispensable parties under Rule 19." Northrop Corp. v. McDonnell Douglas Corp., 705 F.2d 1030, 1046 (9th Cir. 1983), cert. denied, 464 U.S. 849 (1983).

1 In this case, there is no risk that the parties will be subject to multiple or  
2 inconsistent obligations if the absent parties are not joined. As the balance of this section  
3 will explain, each of the parties RSADSI seeks to join is either represented in this lawsuit  
4 or is not entitled to be represented in this lawsuit. Accordingly, none are "necessary"  
5 within the meaning of Rule 19.

6 **A. MIT Is Not a Necessary Party Here Because It Has Assigned the**  
7 **Right to Sue on the Patent to RSADSI.**

8 Long ago, the courts resolved whether, in a patent case, a patent owner must be  
9 joined in a declaratory judgment suit to invalidate the patent. The rule thus established  
10 provides that a patent owner need not be joined as a defendant in a declaratory judgment  
11 action if the patent owner has assigned the right to sue for infringement to the defendant  
12 licensee. See, e.g., A.L. Smith Iron Co. v. Dickson, 141 F.2d 3 (2d Cir. 1944); Caldwell  
13 Mfg. Co. v. Unique Balance Co., Inc., 18 F.R.D. 258, 108 U.S.P.Q. 7, 11 (D.N.Y. 1955);  
14 Surgical Laser Technologies Inc. v. Laser Industries Ltd., 21 U.S.P.Q. 2d 1593, 1595-96  
15 (E.D. Penn. 1991). A licensor is bound by a judgment of invalidity and thus need not be  
16 joined if the licensee-defendant "has authority to institute and control suits for  
17 infringement of the patent." Messerschmitt-Boelkow-Blohm v. Hughes Aircraft, 483  
18 F.Supp. 49, 52 (S.D.N.Y. 1979) (citations omitted).<sup>6</sup>

19 In this case, RSADSI is indisputably an exclusive licensee who has authority to  
20 institute and control suits for infringement. The question of whether a licensee has  
21 standing to sue for infringement should be determined by ascertaining the intention of the  
22 parties and the substance of what was granted. Vaupel Textilmaschinen KG v. Meccanica

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23 <sup>6</sup> Even RSADSI acknowledges that the law does not require the patent owner to be joined in a  
24 declaratory judgment suit. Messerschmitt, like the other cases cited by RSADSI, set forth the  
25 exceptions that prove the rule. As the court observed in Messerschmitt, the rule that the patentee  
26 is not a necessary party where it has entrusted the licensee with the right to sue is obviated where  
27 the patentee is seeking to rescind the license in a separate lawsuit. 483 F.Supp. at 52. Similarly, in  
28 Dentsply Int'l, Inc. v. Centrix, Inc., 553 F.Supp. 289, 293 (D. Del. 1982), the court determined  
that it would be improper to apply the general rule where the terms of the license between the  
patentee and the licensee were informal, unwritten, and themselves in dispute. Here, RSADSI's  
license rights from MIT are clear and undisputed.

1 Euro Italia S.P.A., 944 F.2d 870, 874 (Fed. Cir. 1991). Where the patent owner "has  
2 entrusted the licensee with the right to protect his interests by suing for infringement" the  
3 patent owner suffers no prejudice from a judgment of invalidity in his absence.  
4 Messerschmitt, 483 F.Supp. at 52. Indeed, a credible threat of suit by the licensee may be  
5 sufficient, in and of itself, to give the licensee standing to defend a declaratory judgment  
6 suit without the participation of the patent owner. Capri Jewelry, Inc. v. Hattie Carnegie  
7 Jewelry Enters., Ltd., 539 F.2d 846, 852-53 (2d Cir. 1976); A.L. Smith Iron Co., 141 F.2d  
8 at 5.

9 Here, the license agreement plainly allows RSADSI to sue in its own name and at  
10 its own expense (Fougner Decl. ¶¶ 12-14, Exh. 2). In stark contrast, MIT retains no right  
11 to either bring suit on its own, or to interfere with RSADSI's ability to bring such a suit.<sup>7</sup>  
12 Moreover, the behavior of the parties before this litigation began indicates that both  
13 believed that RSADSI has the right to sue in its own name: RSADSI precipitated this  
14 lawsuit by threatening to institute litigation without any reference to the necessity of  
15 joining MIT to the suit (Fougner Decl. ¶ 15, Exh. 1). Accordingly, because MIT granted  
16 RSADSI the right to sue, MIT is not a necessary party to this declaratory judgment suit  
17 against RSADSI.

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21 <sup>7</sup> The fact that MIT retains a right to be notified and permitted to join a suit instituted by RSADSI  
22 does not make MIT a necessary party to a declaratory judgment action. In Surgical Laser, *supra*,  
23 the University of Washington transferred the right to sue for infringement but retained the right to  
24 intervene in a declaratory judgment suit and to approve any consent judgment or settlement.  
25 21 U.S.P.Q. 2d at 1596. The court nevertheless declined to hold that the University was a  
26 necessary party to a declaratory judgment action, finding that the licensee's authority to institute  
27 and control suits for infringement meant that the licensee was able to adequately protect the  
28 University's rights. *Id.*; see also Vaupel, 944 F.2d at 875 (requirement that patent owner be  
notified of infringement suit not considered significant derogation of right to sue for infringement).  
Finally, the fact that MIT cannot sue on its own obviates one of the concerns of Rule 19: there is  
no danger that Cylink will be subject by a separate suit by MIT. Vaupel, 944 F.2d at 875 (policy  
requiring joinder of patent owner is intended to prevent the possibility of two suits on the same  
patent).

1                    **B.        PKP Is Not a Necessary Party Here Because It Cannot Institute a**  
2                    **Lawsuit on the Patent Without the Agreement of its Constituent**  
3                    **Partners.**

4                    If MIT, the owner of the patent, is not a necessary party, then PKP – a mere  
5                    sublicensee – is not a necessary party. As the license discloses, PKP's parties are entirely  
6                    derivative of the rights granted by RSADSI through MIT.<sup>8</sup> Thus, for the same reason MIT  
7                    is not a necessary party, PKP is not a necessary party. Moreover, the specific facts of this  
8                    case provide at least two additional independent reasons why PKP is not a "necessary"  
9                    party.

10                  First, PKP is not a necessary party because it is a licensee of RSADSI. As a  
11                  licensee, PKP will be bound by a judgment involving RSADSI. Mother's Restaurant,  
12                  Inc. v. Mama's Pizza, Inc., 723 F.2d 1566, 1572 (Fed. Cir. 1983) (trademark licensor  
13                  bound by judgment against its licensee). Second, PKP will be bound by the judgment in  
14                  this case because of the fact that both of its constituent general partners will be bound by  
15                  this action.<sup>9</sup> Accordingly, PKP will be bound by the outcome of this litigation just as  
16                  surely as if it were a named party under normal principles of collateral estoppel. United  
17                  States v. Geophysical Corp., 732 F.2d 693, 697 (9th Cir. 1984) (partnership estopped from  
18                  relitigating claim brought by one of its partners). For either of these reasons, PKP is not a  
19                  necessary party.

20  
21                  \_\_\_\_\_  
22                  <sup>8</sup> Although PKP, like RSADSI, is entitled under the patent license agreement to bring an  
23                  infringement suit in its own name, that right is subject to PKP's need for the agreement of both of  
24                  its partners, RSADSI and CKC Corporation (a wholly owned subsidiary of Cylink) (Fougner Decl.  
25                  ¶ 12). In the absence of an agreement between the partners, the party favoring bringing the  
26                  enforcement action may take legal action independently at its sole expense (Id.). As RSADSI  
27                  recognized when it threatened to sue Cylink, PKP's right to sue Cylink for infringement will  
28                  inevitably revert to RSADSI.

29                  <sup>9</sup> PKP is comprised of RSADSI - already a party - and CKC, the wholly owned subsidiary of the  
30                  plaintiff (Fougner Decl. ¶ 7). CKC, although not a party to this action, has issued and filed  
31                  declaration disclaiming any desire to be a party to this case and agreeing to be bound by the  
32                  outcome of this litigation (Declaration of Caro-Kann Corporation ¶ 4).

1                   **C.       Neither Stanford Nor CKC Are Necessary Parties Because They**  
2                   **Have Mere Indirect (and Theoretical) Financial Interests In the**  
3                   **Outcome.**

4           As the Court of Appeals for the Ninth Circuit recognized in Northrop, supra,  
5   application of Rule 19(a)(2) is "contingent . . . upon an initial requirement that the absent  
6   party claim a legally protected interest relating to the subject matter of the action."  
7   705 F.2d at 1043. This fundamental requirement is missing here. Neither Stanford nor  
8   CKC have any legal interest under the terms of the license in enforcing the patent. At  
9   most, as RSADSI readily admits, Stanford and CKC have an indirect, financial interest in  
10   future income that will be affected by the outcome of the litigation. If such an interest  
11   were enough to make a party "necessary," every lawsuit would become unmanageable:  
12   any person with an interest in the outcome of a lawsuit – employees, shareholders,  
13   suppliers, sublicensees – could be deemed necessary. RSADSI provides no authority for  
14   the novel proposition that having a possible financial interest in the outcome of a lawsuit  
15   requires joinder in the suit, and Cylink submits that no such authority exists.

16                   **II.       THE MOTION TO ENJOIN THE ARBITRATION MUST BE DENIED.**

17                   **A.       There is No Jurisdictional or Procedural Basis for RSADSI's Motion**  
18                   **to Enjoin the Arbitration.**

19           The Federal Rules of Civil Procedure do not permit a party to invoke the protection  
20   of a federal court without setting forth some basis for the claim for relief. Fed. R. Civ.  
21   Proc. 8(a). Here, RSADSI's motion to permanently enjoin the arbitration of Cylink's  
22   contract dispute comes unattached to any pleading, and unsupported by any rule of civil  
23   procedure. The only present claim for relief in this suit – Cylink's complaint for a  
24   declaratory judgment on the validity and enforceability of the patent – obviously does not  
25   seek the relief RSADSI requests here. Indeed, the complaint specifically notes the  
26   existence of the arbitration and expressly reserves the right to arbitrate its contract claims  
27   (Complaint, ¶ 12).

1           This absence of an underlying pleading is more than a minor technicality. It is "a  
2   fundamental principle that federal courts are courts of limited jurisdiction." Stock West,  
3   Inc. v. Confederated Tribes, 873 F.2d 1221, 1225 (9th Cir. 1989). Indeed, "[a] federal  
4   court is presumed to lack jurisdiction in a particular case unless the contrary affirmatively  
5   appears." Id. For that reason, Rule 8 requires more than a statement of the reasons why  
6   the party is entitled to relief. The rule requires "a short and plain statement of the grounds  
7   upon which this court's jurisdiction depends, unless the court already has jurisdiction and  
8   the claim needs no new grounds of jurisdiction to support it." Fed. R. Civ. Proc. 8(a)(1).  
9   Even if RSADSI's motion is construed to be a Rule 8 pleading, it sets forth no discernable  
10   grounds for this Court's jurisdiction over the parties' agreement to arbitrate.<sup>10</sup>

11           The mere presence of a patent issue does not create jurisdiction under the patent  
12   laws of the United States. Christianson v. Colt Indus. Operating Corp., 486 U.S. 800,  
13   808-809 (1988); Ballard Medical Prods. v. Wright, 823 F.2d 527, 531 (Fed. Cir. 1987)  
14   ("[t]hat patent validity or infringement issues may have been injected during the course of  
15   an arbitration proceeding in a contract suit forms no basis for asserting that the district  
16   court's jurisdiction was based on § 1338"). The most likely source of federal jurisdiction  
17   over an arbitrability question – the Federal Arbitration Act – cannot support jurisdiction  
18   here. For tactical reasons, RSADSI has disclaimed the protection of the federal Act,  
19   finding California law more convenient for its strategic goals (see RSADSI Brf. at 9:3-10).  
20   Finally, RSADSI has not stated any grounds for the Court to assume supplemental  
21   jurisdiction over state law claims.

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23   <sup>10</sup> The closest RSADSI comes to stating a jurisdictional basis for the relief it is seeking is the  
24   statement that Cylink's lawsuit is premised on the threat of an infringement, and that the arbitration  
25   will involve infringement by virtue of Cylink's claim to a license (RSADSI Brf. at 2:13-15). This  
26   conclusory assumption that litigation over a patent license is the equivalent of a dispute over a  
27   patent's infringement simply wrong. In Ballard Medical Prods. v. Wright, for example, the Court of  
28   Appeals for the Federal Circuit observed that "[t]he scope of a licensed patent may control the  
scope of a license agreement, but that rule of contract law cannot possibly convert a suit for  
breach of contract into one 'arising under' the patent laws." 823 F.2d 527, 530 (Fed. Cir. 1987).  
Moreover, as we discuss below, Cylink has amended its complaint to limit the relief it seeks from  
to a declaration that the patent is invalid and unenforceable.

1 Even if there were some discernable basis for this Court to exercise jurisdiction,  
2 RSADSI's motion cannot, by itself, support the relief sought. Although styled a motion for  
3 a stay, RSADSI's motion seeks to enjoin the parties from proceeding with the arbitration.  
4 It appears, moreover, that the relief sought in this motion is more than a temporary or  
5 preliminary injunction. Rather, on its face the motion seeks a permanent injunction  
6 against the arbitration. In either case, the requirements for injunctive relief have not been  
7 met. RSADSI has not even attempted to meet the requirements for establishing a right to a  
8 preliminary injunction pursuant to Fed. R. Civ. Proc. 65. See, e.g., Rodeo Collection, Ltd.  
9 v. West Seventh, 812 F.2d 1215, 1217 (9th Cir. 1987) (moving party must show probable  
10 success on merits and possibility of irreparable harm or that serious questions are raised  
11 and the balance of hardships tips in the moving parties favor). If RSADSI seeks a  
12 permanent injunction, then Cylink is entitled to a full trial of this issue and finding on the  
13 merits. In either case, the bare motion made here, however styled, does not provide the  
14 Court with power to enter the extraordinary relief requested.

15 **B. Both Parties Have Already Tendered the Arbitration to the State**  
16 **Courts.**

17 Even if this motion were procedurally and substantively proper, it must be denied  
18 because of one important fact RSADSI decided not to disclose to this Court: RSADSI has  
19 already asked the state court for the exact same relief it is requesting here. On May 19,  
20 1994, having received Cylink's demand for arbitration, RSADSI filed a complaint in the  
21 Superior Court of Santa Clara County seeking to enjoin the arbitration (Fougner Decl.  
22 ¶ 24, Exh. 5).<sup>11</sup> RSADSI, moreover, was not the only party to ask the state court to  
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24 <sup>11</sup> RSADSI's suit also sought, inter alia, a declaration that the law firm of Hopkins & Carley be  
25 disqualified and a declaration preventing Cylink counsel Robert Fougner from participating in the  
26 suit. These issues were decided by the superior court in a decision issued August 9, 1994  
27 (Fougner Decl. Exh. 10). Despite the pendency of its lawsuit seeking to enjoin the arbitration,  
28 RSADSI continued to express willingness to go forward with the arbitration. On June 22, RSADSI  
sent a letter to Cylink agreeing to the arbitration and setting forth counterclaims (Fougner Decl.  
Exh. 6). RSADSI has reiterated its willingness to participate in the arbitration as recently as August  
(continued...)



1 assume jurisdiction of the arbitration. In part because of RSADSI's dilatory response to the  
2 arbitration demand, Cylink filed a petition to compel arbitration of, among other things,  
3 the issues set forth in its arbitration demand (Fougner Decl. ¶ 21, Exh. 6). In sum, both  
4 parties have tendered the enforcement of the parties' agreement to arbitrate to the state  
5 court.

6 Thus, even if there were a jurisdictional basis to entertain RSADSI's claim for relief,  
7 this Court would be bound to abstain from the arbitrability issue on comity grounds.  
8 Federal courts will abstain from an issue tendered to the state court to avoid duplicative  
9 litigation and forum shopping. American Int'l Underwriters v. Continental Ins., 843 F.2d  
10 1253, 1257 (9th Cir. 1988). In this case, the state court has held several hearings on the  
11 enforcement of the arbitration claims, and has issued substantive orders and discovery  
12 orders. Indeed, by the time this motion is heard, there may be a final judgment at the  
13 state court trial level on whether the arbitration should proceed. Where the state court  
14 has invested substantial resources on an issue, the Federal courts will not interfere. Id. at  
15 1257 (in deciding whether to abstain, federal court should "assess how much progress has  
16 been made in the two actions").

17 Perhaps more importantly, an injunction of the arbitration proceedings tendered to  
18 the state court would run afoul of the principles of comity embodied in the Anti-Injunction  
19 Act, 28 U.S.C. § 2283.<sup>12</sup> The purpose of the Act is to:

20 forestall[ ] 'the inevitable friction between the state and federal  
21 courts that ensues from the injunction of state judicial

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22 <sup>11</sup>(...continued)

23 15, 1994, after this motion was filed (Fougner Decl. Exh. 8).

24 <sup>12</sup> This section provides:

25 A court of the United States may not grant an injunction to stay proceedings in a  
26 State court except as expressly authorized by Act of Congress, or where necessary  
27 in aid of its jurisdiction, or to protect or effectuate its judgments.

1 proceedings by a federal court.’ [citations]. Due in no small  
2 part to the fundamental constitutional independence of the  
3 States, Congress adopted a general policy under which state  
4 proceedings ‘should normally be allowed to continue  
unimpaired by intervention of the lower federal courts, with  
relief from error, if any, through the state appellate courts and  
ultimately [the United States Supreme Court].’ [citations]

5 Chick Kam Choo v. Exxon Corp., 486 U.S. 140, 146 (1988). The act has been invoked to  
6 prohibit a federal court from enjoining state court proceedings to enforce a license merely  
7 because the licensee has invoked the jurisdiction of the federal court to declare the patent  
8 invalid. Intermedics Infusaid, Inc. v. Regents of Univ. of Minn., 804 F.2d 129, 132-33  
9 (Fed. Cir. 1986). The act is further violated if the court enjoins a party from proceeding in  
10 a state court suit. (Wright, Miller, & Cooper, Federal Practice and Procedure: Jurisdiction  
11 2d § 4222 (1988).) For RSADSI to prevail here, this Court would have to order Cylink not  
12 to pursue its state court suit to compel the arbitration. These considerations accordingly  
13 prohibit the Court from entering the relief RSADSI seeks here.

14 **C. In Any Event, Cylink Has Not Waived its Right to Arbitration.**

15 Even if the Court were to reach the merits of RSADSI’s motion, it would find that  
16 the purported basis for the motion – Cylink’s alleged waiver of arbitration – is meritless.  
17 To find waiver of this strongly favored right, “the burden of proof is ‘heavy’ and rests on  
18 the party seeking to establish waiver [citations] which ‘is not to be lightly inferred.’”  
19 Keating v. Superior Court, 31 Cal. 3d 584, 605, 183 Cal. Rptr. 360 (1982), rev’d in part,  
20 on other grounds, 465 U.S. 1 (1984). RSADSI has not come close to meeting this  
21 burden.<sup>13</sup>

22 RSADSI’s argument is premised on the notion that in filing this action, Cylink has  
23 taken steps inconsistent with an intent to proceed to arbitration. It is indisputable,  
24 however, that both parties apparently agree that the patent validity and infringement issues  
25 are not within the scope of their arbitration agreement. RSADSI clearly did not believe  
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27 <sup>13</sup> We accept, for purposes of this motion only, that California law applies to the arbitration of  
28 Cylink’s contract claims.

1 that these issues were arbitrable when it threatened to "initiate litigation" against Cylink  
2 for infringement of the MIT patent (Fougner Decl. Exh. 1). Cylink, similarly, did not  
3 include declaratory claims relating to the patent in either of its demands for arbitration  
4 (Moore Decl. Exhs. A, B). Nor did RSADSI include claims for infringement in the  
5 counterclaims it asserted in the arbitration. (Fougner Decl. Exh. 7.)

6 Because arbitration is governed by the mutual intent of the parties (e.g., Pietrelli v.  
7 Peacock, 13 Cal. App. 4th 943, 946, 16 Cal. Rptr. 2d 688 (1993)), and because evidence  
8 of this intent is often found by the parties own conduct in reliance on the contract before  
9 a dispute arises (e.g., Kennecott Corp. v. Union Oil Co., 196 Cal. App. 3d 1179, 1190,  
10 242 Cal. Rptr. 403 (1987)) and thus before a party has an incentive to forum shop, these  
11 actions compel the conclusion that the issues raised in this action are not arbitrable. See  
12 also Ballard Medical Prods. v. Wright, 823 F.2d 527, 531 (Fed. Cir. 1987) (plaintiffs who  
13 litigated liability under license agreement did not thereby put validity of patent into issue  
14 where validity of patents was not a question the parties agreed to submit to arbitration).  
15 By filing this action, Cylink merely confirmed both parties' understanding that the license  
16 issues the parties agreed to arbitrate are entirely distinct from the patent issues, which fall  
17 outside of the scope of the arbitration agreement.<sup>14</sup>

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25 <sup>14</sup> It bears note that California Code of Civil Procedure § 1281.2 gives the court discretion to  
26 stay arbitration pending the outcome of the court proceeding (or, alternatively, to stay the court  
27 proceeding in favor of arbitration) – it does not require a stay. Moreover, under California Code  
28 of Civil Procedure § 1281.4, where arbitrable issues are severable, the stay may be with respect to  
those issues only. See Madden v. Kaiser Found. Hosp., 17 Cal. 3d 699, 714, 131 Cal. Rptr. 882  
(1976) (fact that plaintiff had named defendants who were not subject to arbitration agreement did  
not permit plaintiff to avoid arbitration agreement).

1                   **D.       Cylink Has Amended its Complaint to Avoid Any Overlap Between**  
2                   **the Arbitration and this Litigation.**

3           While patent infringement, validity, and enforceability are clearly not issues the  
4 parties agreed to arbitrate, there is a potential connection between infringement (only)<sup>15</sup>  
5 and one of Cylink's contract claims. If Cylink prevails in the arbitration and establishes  
6 that it is entitled to a license to the MIT patent, then the infringement issues will be  
7 moot.<sup>16</sup> Accordingly, in order to dispel any concern that "infringement" issues will be  
8 pending in multiple fora, Cylink is filing an amended complaint with this opposition to  
9 omit its request that this Court issue a declaratory judgment of noninfringement.<sup>17</sup>

10           By taking this action Cylink does not concede that there is anything contradictory  
11 about pursuing resolution of issues arising from a license agreement in one forum and  
12 issues arising under the patent laws in another. Indeed, the Federal Circuit has referred to  
13 the simultaneous pursuit of license issues in state court and validity issues in another as a  
14 "familiar pattern." Intermedics Infusaid, Inc. v. Regents of Univ. of Minn., 804 F.2d 129,

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15           <sup>15</sup> Without citing any authority, RSADSI asserts that "validity and infringement are viewed as two  
16 sides of the same coin." (RSADSI Brf. at 12:20-21.) It does not take much knowledge of patent  
17 law, however, to recognize that infringement and validity are entirely different issues, with  
18 different burdens of proof (assigned to different parties) and involving different sets of facts. See,  
19 generally, Chisum, Patents, Chapters 1-9, 16-19 (1994). More importantly for this motion, a  
licensee who otherwise has no basis for raising infringement, is entitled nonetheless to challenge  
the validity of the patent. Lear, Inc. v. Adkins, 395 U.S. 653 (1969). This rule exists because of  
the public policy served by identifying and eliminating improperly issued patents. Id. at 670-71.

20           <sup>16</sup> The fact that a license is a defense to a charge of infringement does not mean that infringement  
21 of the patent will be determined when those license issues are arbitrated. A determination of  
22 whether a product or practice infringes requires rigorous inquiry into the scope of the patent  
23 claims and comparison of each element of the claims with the accused device. See, e.g., Stiftung  
v. Renishaw PLC, 945 F.2d 1173 (Fed. Cir. 1991). More to the point, RSADSI's assertion that  
Cylink has tendered the infringement issue to the arbitration is simply wrong. As a review of  
Fougner exhibits reveal, neither party has done so. It is simply untrue to say, as RSADSI does, that  
24 "[t]he issue of whether Cylink is infringing the MIT Patent is therefore central to that arbitration"  
(RSADSI Mem. at 12:16-18). Even if Cylink is not infringing presently, its right to a license will  
25 allow it to practice the invention in the future.

26           <sup>17</sup> The Federal Rules of Civil Procedure permit filing of an amended pleading once as a matter of  
27 course at any time before a responsive pleading is served. Fed. R. Civ. Proc. 15(a). A motion to  
dismiss under Rule 12 is not considered a responsive pleading. St. Michael's Convalescent Hosp.  
28 v. State of Cal., 643 F.2d 1369, 1374 (9th Cir. 1981).

1 132 (Fed. Cir. 1986) (upholding a district court's denial of an injunction against state court  
2 proceedings); see also C.R. Bard, Inc. v. Schwartz, 716 F.2d 874 (Fed. Cir. 1983) (licensee  
3 sued for enforcement of license in state court may bring federal suit seeking declaratory  
4 judgment of invalidity). This "familiar pattern," far from indicating Cylink's pursuit of  
5 inconsistent judgments, is fully consistent with the policies set forth by the Supreme Court  
6 in Lear, Inc. v. Adkins, 395 U.S. 653 (1969) (public policy supports a licensee's right to  
7 challenge the validity and enforceability of a patent).

## 8 CONCLUSION

9 RSADSI's behavior before this suit was filed contrasts sharply with its behavior once  
10 confronted with the threat to the validity of its patent. Before this suit was filed, RSADSI  
11 seemed content to have patent issues litigated without the involvement of MIT, Stanford,  
12 CKC and PKP. Now a defendant in this Court, these others become "necessary" parties.  
13 Before this suit was filed, RSADSI believed that the state Superior Court was the proper  
14 forum to resolve whether the arbitration should proceed, and what issues should be  
15 arbitrated. Now a defendant in this Court, it contends that this Court should resolve the  
16 same questions. Before this suit was filed, RSADSI believed that the patent issues were  
17 not arbitrable and that patent litigation could proceed without conflict with the arbitration.  
18 Now a defendant in this Court, RSADSI claims that litigating the patent claims strips  
19 Cylink of all of its bargained-for arbitration rights.

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1           Whether RSADSI's two motions are intended simply for purposes of delay and to  
2 increase the plaintiff's litigation costs, or if they are the result of utterly misguided legal  
3 analysis, the result here should be the same. The two motions are meritless and should be  
4 denied.

5           Dated: August 19, 1994

PATRICK J. FLINN  
JANA G. GOLD  
MORRISON & FOERSTER

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8 By: \_\_\_\_\_

  
Attorneys for Plaintiff  
CYLINK CORPORATION

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DECLARATION OF SERVICE

I am employed with the law firm of MORRISON & FOERSTER, whose address is 755 Page Mill Road, Palo Alto, California, 94304; I am not a party to the cause; I am over the age of eighteen years; and I am readily familiar with Morrison & Foerster's practice for collection and processing of correspondence for delivery to a professional messenger service for hand delivery at no charge to the recipient, or for mailing with the United States Postal Service, and know that in the ordinary course of Morrison & Foerster's business practice, the document described below will be collected during designated hours for delivery by messenger, or deposited with the U.S. Postal Service on the same date that it is placed at Morrison & Foerster mailroom with postage thereon fully prepaid.

I further declare that on the date hereof, I served a copy or copies of:

MEMORANDUM IN OPPOSITION TO MOTION TO DISMISS AND MOTION TO ENJOIN ARBITRATION

DECLARATION OF ROBERT B. FOUNGER IN OPPOSITION TO MOTION TO DISMISS AND MOTION TO ENJOIN ARBITRATION

DECLARATION OF CARO-KANN CORPORATION REGARDING MOTION TO DISMISS

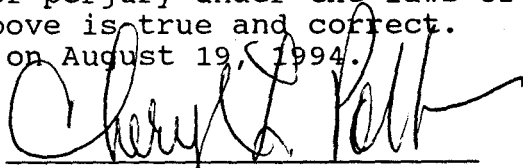
[PROPOSED] ORDER

on the following by placing a true copy thereof enclosed in a sealed envelope addressed as follows for collection at MORRISON & FOERSTER, 755 Page Mill Road, Palo Alto, California 94304, for delivery by messenger or by mail, as follows:

BY MESSENGER TO:

Thomas E. Moore III, Esq.  
Tomlinson, Zisko, Morosoli & Maser  
200 Page Mill Road, 2nd Floor  
Palo Alto, CA 94306

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.  
Executed at Palo Alto, California, on August 19, 1994.

  
Cheryl L. Polk