JS-6

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

ARMIN AZOD, an individual; DR. SHANTANU SHARMA, an individual; DR. DONG ZHANG, an individual; and PETER JOHN, an individual,

Plaintiffs,

vs.

JAMES G. ROBINSON, an individual; MORGAN CREEK PRODUCTIONS, INC., a Delaware corporation; and CECILIA, LLC, a Delaware limited liability company,

Defendants.

Case Number 2:16-cv-00440-JFW (Ex)

STATEMENT OF DECISION GRANTING DEFENDANTS' MOTION TO COMPEL ARBITRATION AND TO DISMISS FOR "IMPROPER VENUE"

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STATEMENT OF DECISION GRANTING MOTION TO COMPEL ARBITRATION AND TO DISMISS FOR "IMPROPER VENUE"

Defendants James G. Robinson, Morgan Creek Productions, Inc. and Cecilia, LLC filed a motion for an order compelling arbitration and dismissing the action for improper venue. Having read and considered the papers and the arguments of counsel, the Court finds and concludes the following:

STATEMENT OF FACTS

Plaintiffs allege they were founding members of Novoform Technologies, LLC ('Novoform'), which owned intellectual property rights in certain processes relating to the conversion of methane gas to methanol using catalysts. [*Dkt. 29, First Amended Complaint ("FAC"), ¶ 15.*] Plaintiffs further allege that they entered into an Asset Purchase Agreement dated as of October 15, 2014 with Defendant Cecilia, LLC, ("Cecilia"), a company owned by Defendant James G. Robinson ("Robinson"). The Asset Purchase Agreement is attached to and cited throughout the FAC, and Plaintiffs rely on it for each of their claims. [*Dkt. 29, FAC, ¶¶ 11, 19, 39, 43-47, 51, 56, 59, 63, 70, 71, 72, 74, 80, 81, 84, 93, 96, Prayer.*]

Paragraph 20 of the Asset Purchase Agreement is entitled "**Governing Law**", and reads:

> "This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the State of Maryland without reference to its conflict of laws provisions; and each Party irrevocably (i) agrees that any action or proceeding arising from or relating to this Agreement may be brought only in the courts of Maryland, (ii) consents, for itself and in respect of its property, to the jurisdiction of such courts in any such action or proceeding, and (iii) waives any objection to proceeding in such venue, including that the forum is inconvenient."
> [*Dkt. 29-2.*]

Paragraph 21 of the Asset Purchase Agreement is entitled "**Dispute Resolution**," and states:

> "Except for any claim for injunctive relief arising out of a breach of section 15 of this Agreement [relating to confidentiality], the Parties agree to confidentially arbitrate in the State of Maryland through JAMS (formerly Judicial Arbitration and Mediation Service), any and all disputes or claims arising out of or related to the validity, enforceability, interpretation, performance or breach of this Agreement, whether sounding in tort, contract, statutory violation or otherwise, or involving the construction or application or any of the terms, provisions, or conditions of this Agreement. Any arbitration may be initiated by a written demand to the other Party. The arbitrator's decision shall be final, binding, and conclusive. The Parties further agree that this Agreement is intended to be strictly construed to provide for arbitration as the sole and exclusive means for resolution of all disputes hereunder to the fullest extent-permitted by law. The Parties expressly waive any entitlement to have such controversies decided by a court or a jury. The Parties further agree that the arbitrator of any such dispute may, in the arbitrator's discretion, award money damages to the prevailing Party, including the costs of the arbitration, and attorney's fees, as well as permanent injunctive relief."
>
> [*Dkt. 29-2.*]

Defendants contend that their transactional counsel drafted and transmitted to Plaintiffs several versions of the Asset Purchase Agreement, each of which included the identical language in ¶¶ 20-21 quoted above. [*Dkt. 36-1, Fanelli Decl., ¶ 5,8,10; Dkt. 36-4, Dkt. 36-5, Dkt. 36-6, Dkt. 36-7, Dkt. 36-8.*] The provisions in ¶¶ 20-21 were conspicuous and set forth in the same sized font as all the other terms of the Asset Purchase Agreement. [*Id.*] Plaintiffs do not dispute that they received multiple

versions of the Asset Purchase Agreement containing ¶¶ 20 and 21. While Plaintiffs contend an earlier version of the Asset Purchase Agreement that did not include the choice of venue and arbitration clauses had been drafted by separate counsel for Defendants, the email string attached as Exhibit A to Plaintiff Armin Azod's ("Azod") declaration supporting the opposition indicates that a "memorandum of understanding" that the other "attorneys started to draft is not suitable" and was to be disregarded. [*Dkt. 40-1, Azod Decl., ¶ 2*; *Dkt. 40-2*.] Moreover, Azod states in his declaration that "[c]opies of the earlier drafted Asset Purchase Agreements were neither given to me nor emailed to me." [*Dkt. 40-1, Azod Decl., ¶ 2*.] Nothing in Azod's declaration suggests that Plaintiffs were not aware that they we agreeing to arbitrate any and all claims relating to the Asset Purchase Agreement. To the contrary, Mr. Azod apparently states in ¶ 4 that he discussed the arbitration clause and forum selection clause before the Asset Purchase Agreement was signed. [*Dkt. 40-1, Azod Decl., ¶ 4*.] Additionally, ¶ 41 of the FAC indicates that Plaintiffs were aware that Robinson was insisting that the Asset Purchase Agreement include "a clause mandating arbitration of disputes in Maryland ...." [*Dkt. 29, FAC, ¶ 41*.]

DISCUSSION

I. MOTION TO COMPEL ARBITRATION

A. Legal Standard

The Federal Arbitration Act ("FAA") provides that an agreement to submit commercial disputes to arbitration shall be "valid, irrevocable, and enforceable." 9 U.S.C. § 2. On a motion to compel arbitration, a court's role is "limited to determining (1) whether a valid agreement to arbitrate exists and, if it does, (2) whether the agreement encompasses the dispute at issue." Chiron Corp. v. Ortho Diagnostic Sys., Inc., 207 F.3d 1126, 1130 (9th Cir. 2000). "If the response is affirmative on both counts, then the [FAA] requires the court to enforce the arbitration agreement in accordance with its terms." Id. The FAA "leaves no place for the exercise of discretion by a district court, but instead mandates that district courts shall direct the parties to

proceed to arbitration on issues as to which an arbitration agreement has been signed." Id. "[A]ny doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration." Id., at 1131."The burden is on the party opposing arbitration." Shearson/Am. Express., Inc. v. McMahon, 482 U.S. 220, 227 (1987).

B. Choice of Law

Defendants argue that in light of the choice of law provision in ¶ 20 of the Asset Purchase Agreement, Maryland law applies in deciding whether the Court must order arbitration. [*Dkt. 36, 6:16-8:12.*] Plaintiffs' opposition did not address choice of law, and only cited to California authorities. [*Dkt. 40.*] The Court finds that the parties entered into an agreement providing that Maryland law controls any disputes related to the agreement. Maryland has a substantial relationship to the parties and their transaction, and there was a reasonable basis for their choice of law, in that Plaintiffs allege Robinson is a resident of Maryland and that he is the sole shareholder of Defendant Cecilia, and that Defendant Morgan Creek Productions, Inc.'s principal place of business is in Maryland. (*Dkt. 29, FAC, ¶¶ 3, 9-10.*) See Hoffman v. Citibank, N.A., 546 F.3d 1078, 1082 (9th Cir. 2008). Additionally, there is nothing in Maryland's law concerning arbitration with respect to the issues in this case that appears to be contrary to a fundamental policy of California.

The Maryland Uniform Arbitration Act, codified in Maryland Courts and Judicial Proceedings Code § 3-206, provides:

> "Except as otherwise provided in this subtitle, a written agreement to submit any existing controversy to arbitration or a provision in a written contract to submit to arbitration any controversy arising between the parties in the future is valid and enforceable, and is irrevocable, except upon grounds that exist at law or in equity for the revocation of a contract."

This language is similar and "purposefully meant to mirror the language of the FAA." Walther v. Sovereign Bank, 386 Md. 412, 423-424 (2005).

Maryland courts use the following approach to determining enforcement of arbitration clauses:

> "First ... if an arbitration clause is clear, it is initially for the courts to determine whether the subject matter of a dispute falls within the scope of the arbitration clause. Second, ... in determining whether a dispute falls within the scope of an arbitration clause, arbitration should be compelled if the arbitration clause is broad and does not expressly and specifically exclude the dispute. Third, ... if an arbitration clause is unclear as to whether the subject matter of the dispute falls within the scope of the arbitration agreement, the question of arbitrability ordinarily should be left to the arbitrator."

Freedman v. Comcast Corp., 190 Md. App. 179, 192 (2010).

In California, a party seeking to compel arbitration has the burden of proving the existence of a valid arbitration agreement by the preponderance of the evidence. The party opposing the petition must then prove by a preponderance of the evidence any fact necessary to its defense, including that an arbitration provision is invalid or otherwise unenforceable. Engalla v. Permanente Medical Group, Inc., 15 Cal.4th 951, 972 (1997); Securitas Security Services USA, Inc. v. Superior Court, 234 Cal.App.4th 1109, 1116 (2015). There is no fundamental policy in California that is contradicted by Maryland law that warrants application of California law in this instance. Regardless, there should not be any different result under California law, since Plaintiffs admit to the existence of the arbitration agreement, and cannot demonstrate it is invalid or unenforceable.

C. Analysis

The FAC maintains that Defendants made promises that were important to their transaction, "because Plaintiffs would not have entered into the Asset Purchase Agreement but for these promises ...." [*Dkt. 29, FAC, ¶ 71.*] Plaintiffs further allege "the arbitration clause [in the Asset Purchase Agreement] was a critical part of

Robinson's fraudulent scheme to deprive Plaintiffs of access to a reasonable forum ...." and it is not enforceable pursuant to the United States Supreme Court's holding in Moseley v. Electronic Facilities, 374 U.S. 167, 170-171 (1963). [*Dkt. 29, FAC, ¶¶ 62, 72.*] "Moseley, at least arguably, stands for the proposition that an allegation that an arbitration clause is inserted into a contract as part of a fraudulent scheme raises an issue of the validity of the arbitration clause which then must be resolved by a court." Hayes Children Leasing Co. v. NCR Corp., 37 Cal.App.4th 775, 781 (1995). However, the Supreme Court's subsequent holding in Prima Paint v. Flood & Conklin, 388 U.S. 395, 402-404 (1967) provides that an arbitration agreement cannot be defeated by allegations that the contract as a whole was fraudulently induced. Instead the validity of the arbitration clause should be determined separately from the validity of the contract as a whole, because an arbitration agreement reflects an intent to have the arbitrator determine all claims between the parties, including any claim that the contract itself was induced by fraud. Id. In other words, where a party opposes a motion for arbitration based on allegations that there was fraud in the inducement of the entire contract, the issue is one for an arbitrator, not a court. Authorities in Maryland and California confirm that the ruling in Prima Paint supplanted the inconsistent holding in Moseley. See Sunterra Corp. v. Ernst & Young LLP, 2003 Md. Cir. Ct. LEXIS 10, *12-13; Holmes v. Coverall N. Am., Inc., 336 Md. 534, 545 (1994); Hayes, at 781 (Moseley "and its holding, therefore, is overruled or limited to the extent it is inconsistent with the principles of law stated in [Prima Paint].").

The FAC and opposition cite to Buckeye Check Cashing, Inc. v. Cardegna, 546 US 440, 445-446 (2006). Buckeye reinforces the holding in Prima Paint recognizing two types of challenges to the validity of an arbitration clause: those concerning the validity of the arbitration clause itself, and those challenging the validity of the entire contract that includes the arbitration agreement. Plaintiffs have not challenged the validity of the arbitration agreement on its own. They do not contend they did not know they were agreeing to arbitration, and in fact judicially admit at ¶ 41 of the FAC

that they were aware of the provision for arbitration during negotiations.

Plaintiffs maintain that Defendants committed fraud on the United States Patent and Trademark Office ("USPTO") so that Cecilia, LLC would qualify as a "micro entity," which would allow it to pay reduced filing fees, and that Azod warned Defendants and their counsel that such "fraud" might result in the contemplated patent being held invalid. [*Dkt. 29, FAC, ¶¶ 1, 2, 13, 20, 25, 46, 55, 91, 104.*] Plaintiffs now appear to take the position that the alleged fraud on the USPTO is the primary thrust of this entire action, even though those allegations did not appear in the initial Complaint. Regardless, Plaintiffs fail to allege a claim for fraud on the USPTO in the First Amended Complaint, and even if Plaintiffs were to allege such a claim, that claim would not somehow render Plaintiffs' claims based on the Asset Purchase Agreement non-arbitrable.

D. Plaintiffs Have Not Demonstrated Procedurally and/or Substantive Unconscionability

In Maryland, "[t]he prevailing view is that both procedural and substantive unconscionability must be present in order for a court to invalidate a contractual term as unconscionable." Freedman v. Comcast Corp., 190 Md.App. 179, 207-208 (2010). California requires both procedural and substantive unconscionability to invalidate an arbitration agreement, but uses a sliding scale. Ajamian v. CantorCO2e, L.P., 203 Cal.App. 4th 771, 795 (2012). "Procedural unconscionability deals with the process of making a contract and looks much like fraud or duress. It includes concerns such as the use of 'fine print and convoluted or unclear language,' and 'deficiencies in the contract formation process, such as deception or a refusal to bargain over contract terms' and 'one party's lack of meaningful choice. ... [¶] Substantive unconscionability involves those one-sided terms of a contract from which a party seeks relief ..., and [it] reminds us of contracts or clauses contrary to public policy or illegal.'" Freedman, at 208 (internal quotations and citations omitted).

Plaintiffs argue that procedural unconscionability exists because the Asset

Purchase Agreement was provided on a "take-it-or-leave-it basis," and Robinson has "vast resources and bargaining power when compared to Plaintiffs," citing to Nagrampa v. MailCoups, Inc., 469 F.3d 1257, 1280 (9th Cir. 2006). [*Dkt. 40, 13:2-12.*] Plaintiffs have not established Defendants had superior bargaining power in this transaction based on the unsupported and vague contention that Robinson has "vast resources." Plaintiffs possessed rights to a patent application they contend is worth hundreds of millions of dollars. There is no reason they were unable to negotiate any terms pertaining to the forum for dispute resolution. Plaintiffs have not provided any evidence that they took issue with the arbitration clause until after this action was filed. Nagrampa concerned a franchise agreement, and the Court of Appeals for the Ninth District explained that "California courts have long recognized that franchise agreements have some characteristics of contracts of adhesion because of the 'vastly superior bargaining strength' of the franchisor." Id., at 1282. This action does not involve a franchise agreement, an employment agreement, a consumer contract or any other situation in which the courts commonly consider the contracting parties to have unequal bargaining power for purposes of determining procedural unconscionability. Moreover, Plaintiffs' reliance on Nagrampa in arguing that the entire Asset Purchase Agreement was provided on a take-it-or-leave it basis is improper based on the holding in Buckeye. See Toledano v. O'Connor, 501 F. Supp. 2d 127, 146, 2007 U.S. Dist. LEXIS 60162, *40-41, fn. 5 (D.D.C. 2007).

Plaintiffs also contend that both the arbitration clause and the choice of venue clauses are substantively unconscionable, arguing that they conflict with each other. (*Dkt. 40, 13:13-14:17.*) The provisions do not conflict. The arbitration clause states that "the Parties agree to confidentially arbitrate ... any and all disputes or claims arising out of or related to the validity, enforceability, interpretation, performance or breach of this Agreement ...." The choice of venue clause provides that "any action or proceeding arising from or relating to this Agreement may be brought only in the courts of Maryland." There is no conflict because while any *disputes* or *claims* must

be arbitrated, the parties must be able to file a court action relating to enforcing and/or challenging the arbitration award. The Asset Purchase Agreement provides that Maryland state court is the only proper forum for seeking such relief. Moreover, the argument relies on a consideration of provisions falling outside of the arbitration clause itself. Any question of a purported conflict between the provisions of the Asset Purchase Agreement must be decided by the arbitrator, as clearly set forth in the arbitration clause. Plaintiffs have not cited any authority suggesting that the proper action for the court to take is to strike both the arbitration clause and choice of venue provision, thus allowing Plaintiffs to maintain this action in a venue not provided for pursuant to the terms of the Asset Purchase Agreement.

II. MOTION TO DISMISS FOR "IMPROPER VENUE"

Although Defendants argue that this case should be dismissed for "improper venue" under Federal Rule of Civil Procedure 12(b)(3) and 28 U.S.C. § 1406(a), the Court concludes that "the appropriate way to enforce a forum-selection clause pointing to a state or foreign forum is through the doctrine of forum non conveniens." *Atlantic Marine Construction Co., Inc. v. United States District Court*, 134 S. Ct. 568, 580 (2013). Because there are no extraordinary or unusual circumstances in this case, the forum selection clause controls, and this case should be dismissed on forum non conveniens grounds. *See id.* at 581, 582.

Paragraph 21 provides that any claim arising out of the Asset Purchase Agreement must be confidentially arbitrated in Maryland. Paragraph 20 provides that Maryland law governs the Asset Purchase Agreement, and that "any action or proceeding arising from or relating to this Agreement may be brought only in the courts of Maryland," that the parties consent to jurisdiction in such court and that they waive any objection to proceeding in such venue. Plaintiffs' argument that the forum selection clause should not be enforced because Maryland does not have authority to apply patent law [*Dkt. 40, 11:8-23*] fails, because the claims alleged in Plaintiffs' First Amended Complaint do not require the resolution of any questions relating to patent

law.

CONCLUSION

Based on the foregoing reasons, Defendants' motion to compel arbitration and to dismiss for "improper venue" is **GRANTED**. The parties are ordered to confidentially arbitrate any and all claims pertaining to the Asset Purchase Agreement dated as of October 15, 2014 in the state of Maryland through JAMS. This action is hereby dismissed on *forum non conveniens* grounds.

IT IS SO ORDERED.

Dated: May 10, 2016

Hon. John F. Walter
United States District Judge