



IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

MARC SHAPIRO,

Plaintiff,

v.

CIVIL NO. 2:15cv384

THE L.S. STARRETT COMPANY, et al.,

Defendants.

ORDER

This matter comes before the Court on two motions filed by defendant The L.S. Starrett Company (“Defendant” or “Starrett”): a Motion to Dismiss or Compel Arbitration and Stay Proceedings, ECF No. 10, and a Motion to Stay Proceedings against Defendants Amazon.com, Inc., Amazon.com, LLC, and W.W. Grainger, Inc, ECF No. 12. For the reasons described herein, the Court **GRANTS** Motion to Compel Arbitration and **ORDERS** the plaintiff, Marc Shapiro (“Shapiro” or “Plaintiff”), and Starrett to commence arbitration in Boston, Massachusetts pursuant to the rules of the American Arbitration Association as set forth in the License Agreement between them. ECF No. 10. The Court also **GRANTS** the Motion to Stay Proceedings. ECF No. 12. This matter is **STAYED** as between all parties until the completion of arbitration between Shapiro and Starrett.

I. BACKGROUND

This is an action for patent infringement arising under Title 35 of the United States Code. Compl. ¶ 1, ECF No. 1. The plaintiff is an individual, Marc Shapiro. Id. ¶ 2. Plaintiff has sued four legal entities: The L.S. Starrett Company (“Starrett” or “Defendant”), Amazon.com, Inc.,

Amazon.com LLC, and W.W. Grainger, Inc. (“Grainger”). Id. ¶¶ 3–7. Plaintiff owns and holds all rights to the three patents-in-suit: United States Patent Nos. 6,237,238 (“the ’238 Patent”), 6,804,895 (“the ’895 Patent”), and 7,406,774 (“the ’774 Patent”). Id. ¶¶ 21–25; see also ECF Nos. 1-1, Ex. A, 1-2 Ex. B., 1-3, Ex. C.

The three patents-in-suit are for tools designed to assist users of miter saws.¹ Compl. ¶¶ 16–17. In construction and other applications, a single material may be cut so that it fits to an angle, a so-called butt joint. Compl. ¶ 16. Similarly, two materials may be fitted together at an angular junction, commonly referred to as a miter joint. Id. A common tool used to cut the necessary angles for these joints is a miter saw. Id. Miter saws use an inverted measuring system such that the setting on the miter saw and the desired angle of the butt or miter joint are not the same. Id. The patents-in-suit translate the desired angle of a butt or miter joint into the inverted scale of miter saws. Compl. ¶¶ 16–19.

Shapiro approached Starrett, a successful manufacturer of hand tools, about licensing the ’238 Patent. Id. ¶ 26. Starrett and Shapiro entered into a licensing agreement to make a “miter saw protractor.” Id. ¶ 27. This agreement is dated October 7, 2002. License Agreement, ECF No. 11-1 at 8.² With the agreement, Starrett was granted an exclusive license under the ’238 Patent and the patent application that would become the ’895 Patent. Compl. ¶ 27. The License Agreement provides that it “shall continue until the expiration of the patent or patents referred to above.” License Agreement ¶ 3. The patents referenced are the just mentioned ’238 Patent and the patent application that would become the ’895 Patent. Id. ¶ 2. The License Agreement also

¹ The facts contained in this Background section are taken from the allegations contained in Plaintiff’s Complaint, which, for purposes of ruling on the instant Motion to Dismiss, the Court accepts as true. Nemet Chevrolet, Ltd. v. Consumer Affairs, Inc., 591 F.3d 250, 253 (4th Cir. 2009).

² In evaluating a Motion to Dismiss, a court must consider “the complaint in its entirety, as well as documents attached or incorporated into the complaint.” E.I. du Pont de Nemours & Co. v. Kolon Indus., Inc., 637 F.3d 435, 448 (4th Cir. 2011). Although the License Agreement is not attached to the complaint, it is referenced within the complaint. Neither party disputes that the copy of the License Agreement attached to Starrett’s Motion to Dismiss is an accurate reproduction of the document.

contains the following an arbitration clause:

17) ARBITRATION:

Any dispute hereunder shall be settled in Boston, Massachusetts by arbitration pursuant to the rules, then obtaining, of the American Arbitration Association.

License Agreement at 6–7.

Starrett developed and sold three versions of the miter saw protractor under the patent license. Id. ¶ 28. On or about April 2, 2008, Shapiro gave notice to Starrett that it was terminating the licensing agreement pursuant to a provision in the agreement that allowed Shapiro to terminate the agreement if Starrett did not meet certain sales figures. Id. ¶ 30; see also License Agreement ¶ 9. The termination became effective on October 7, 2008. Compl. ¶ 30. Two provisions of the contract establish continuing obligations for the parties in the event of termination. The provision of the contract that allowed Shapiro to terminate the agreement because of Starrett’s failure to meet minimum sales goals provides that

The Licensee [Starrett] will be allowed to sell off its inventory of finished goods and all potential parts made into finished tools past the anniversary termination date using its best efforts as set forth in paragraph 4. The Licensee shall within one month of termination inform the Licensor [Shapiro] of the quantity of the Licensee’s remaining inventory and update that figure every three months.

License Agreement ¶ 9. A separate termination provision provides that

Termination by any means set forth herein shall not relieve Licensee of its obligations to provide reports and pay Licensor any royalties shown to be due up to the date of termination. Upon such termination, Licensee agrees that it will take no action that will infringe on any valid patent claims Licensor may have.

Id. ¶ 11(c).

Shapiro alleges that several products currently sold by Starrett infringe his patents. Compl. ¶ 33. These products allegedly have “substantially the same design” as the products

produced under the License Agreement. Id. Other products are alleged to have “substantially the same structure, function, and operation” as the products produced under the licensed patents. Id. ¶ 34. Starrett, which has not yet filed an answer, claims in a footnote to its Motion to Dismiss that these products have been redesigned so as to avoid infringing Shapiro’s patents. See Starrett’s Mem. in Supp. of Mot. to Dismiss (“Starrett’s Mem. in Supp.”), ECF No. 11 at 3 n.2. The remaining co-defendants, the two Amazon.com entities and Granger, sell the allegedly infringing products. Compl. ¶¶ 39–46.

Starret filed the instant Motion to Dismiss or Compel Arbitration on December 4, 2015. ECF No. 10. The same day Starrett also filed a Motion to Stay Proceedings against the other defendants if this Court compels arbitration between Starrett and Shapiro. ECF No. 12. On December 18, 2015, Shapiro filed his Opposition to the Motion to Dismiss and the Motion to Stay. ECF Nos. 22, 23. Starrett filed Replies to both Oppositions on December 23, 2015. ECF Nos. 24, 25. On February 23, 2016, the Court held a hearing on both motions. ECF No. 26.

II. DISCUSSION

The Patent Act permits voluntary arbitration of patent disputes:

(a) 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.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9 [the Federal Arbitration Act], to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 shall be considered by the arbitrator if raised by any party to the proceeding.

35 U.S.C. § 294.

Section 4 of the Federal Arbitration Act empowers a court, upon petition by a party to an agreement containing an arbitration clause, to “make an order directing the parties to proceed to

arbitration in accordance with the terms of the agreement.” 9 U.S.C. § 4. Additionally, the Court “shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement.” Id. § 3.

Of course, “a party cannot be required to submit to arbitration any dispute which he has not agreed so to submit.” Am. Recovery Corp. v. Computerized Thermal Imaging, Inc., 96 F.3d 88, 92 (4th Cir. 1996) (quoting United Steelworkers of Am. v. Warrior & Gulf Navigation Co., 363 U.S. 574, 582 (1960)). Whether a party has agreed to submit a dispute to arbitration “is a matter of contract interpretation.” Id. The Supreme Court has identified in the Federal Arbitration Act a federal policy in favor of arbitration. Levin v. Alms & Associates, Inc., 634 F.3d 260, 266 (4th Cir. 2011) (citing Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 24 (1983)). “The Arbitration Act establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability.” Moses H. Cone Mem’l Hosp., 460 U.S. at 24–25. This “heavy presumption” requires that when the scope of an arbitration provision is in doubt, “a court must decide the question in favor of arbitration.” Levin, 634 F.3d at 266 (quoting Peoples Sec. Life Ins. Co. v. Monumental Life Ins. Co., 867 F.2d 809, 812 (4th Cir.1989)).

Starrett argues that, pursuant to Paragraph 11 of the License Agreement, the termination of the licensing arrangement triggered its continuing obligation not to infringe any of Shapiro’s patents. Starrett’s Mem. in Supp. at 3. Because this suit alleges infringement of three of Shapiro’s patents, it is a “dispute hereunder” as defined by the arbitration clause of the License Agreement and must be settled in arbitration. Id. Accordingly, Starrett asks this Court for an order compelling arbitration and for the Court to stay proceedings until arbitration is completed.

Starrett also argues that application of the License Agreement is necessary to decide the amount of damages. Id. at 4. Shapiro seeks damages for the six years prior to his filing suit, the maximum period of damages allowed under the Patent Act. Compl. at 15; 35 U.S.C. § 286. This six year period reaches into the sell-off period during which Starrett was permitted to extinguish its inventory of the licensed product. See License Agreement ¶ 9. Therefore, according to Starrett, “the inventory sell-off clause is likely to pertain to some extent to Mr. Shapiro’s damage claim.” Starrett’s Mem. in Supp. at 4. Because the License Agreement and the instant suit are “sufficiently connected,” this dispute is covered by the arbitration clause. Id. at 7.

Shapiro argues in response that once the license was terminated, Starrett’s only remaining obligations under the contract were to provide reports of its remaining inventory of licensed products and compensation for sales of the same. Pl.’s Opp’n to Starrett’s Mot. to Dismiss (“Pl.’s Opp’n”), ECF No. 23 at 3. Once these obligations were met, as Shapiro argues they were, there were no obligations under the contract that might form the basis of a “dispute hereunder” subject to mandatory arbitration. Id. at 5. This suit does not involve any of the licensed products, which Starrett no longer sells, but new products that allegedly infringe Shapiro’s patents. Because these new products were not part of the License Agreement, this is not a dispute under the License Agreement. Id. The Court will not have to apply or interpret the License Agreement in order to adjudicate the merits of his suit. Id. at 7–8.

Shapiro acknowledges that the License Agreement contains the provision providing that “[u]pon such termination, Licensee [Starrett] agrees it will take no action that will infringe on any valid patent claims that Licensor may have.” He argues that this provision is, in essence, a nullity because Starrett already had an obligation under Federal law not to infringe any valid patent he may have. Pl.’s Mem. in Opp’n at 5–6. In addition, he notes, one of the patents-in-suit

was not part of the License Agreement. Id. at 7. Additionally, at the hearing his counsel argued that if the Court were to interpret the License Agreement in the manner advocated by Starrett, the Agreement would require the arbitration of any patent suit by Shapiro against Starrett even if the patent-in-suit was completely unrelated to patents covered by the License Agreement. See Mot. Hr'g, ECF No. 26.

Shapiro's focus on whether the License Agreement has "bearing" on his patent infringement claims mischaracterizes the issue. See Pl.'s Opp'n at 8. It does not matter whether the Court has to apply the License Agreement in order to decide the patent claims. The question for the Court is whether the parties agreed to arbitrate these claims in the License Agreement. Nevertheless, if it is true, as Starrett claims, that the Court must consider the sell-off provisions of the License Agreement in order to calculate damages, the argument that this suit is a "dispute hereunder" the License Agreement would be strengthened. Courts have typically interpreted arbitration clauses providing for arbitration of all claims "hereunder" broadly. See Dialysis Access Ctr., LLC v. RMS Lifeline, Inc., 638 F.3d 367, 380–81 (1st Cir. 2011) (discussing the approaches taken in various federal circuits and noting that only the Ninth Circuit has interpreted hereunder in a narrow manner). However, the Court need not reach this contention. Nor need the Court rely on the heavy presumption in favor of arbitration when the scope of an arbitration clause is in doubt. The Agreement provides that upon termination Starrett "will take no action that will infringe on any valid patent claims [Shapiro] may have." License Agreement ¶ 11(c). Shapiro has alleged that Starrett has infringed three of its patents. This is a dispute within the scope of the Agreement no matter how narrowly one reads the term hereunder.

It is of no consequence that Federal law also requires that Starrett not infringe on any of Shapiro's patents. In deciding whether a claim must be submitted to arbitration a court must look

at the “factual allegations underlying the claim” rather than the “legal label assigned to the claim.” Am. Recovery Corp., 96 F.3d at 93 (quoting J.J. Ryan & Sons, Inc. v. Rhone Poulenc Textile, S.A., 863 F.2d 315, 319 (4th Cir. 1988)). Nor is it of consequence that a preexisting obligation cannot constitute consideration for a contract. There is no dispute that the License Agreement was a valid contract support by consideration. The provision requiring that Starrett not infringe any patent claim of Shapiro is but one clause in the contract.

Shapiro is asking this Court to ignore this provision of the License Agreement because this provision along with the arbitration clause requires a result that he characterizes as incredible: that any patent suit between these parties would be subject to arbitration even if the patent-in-suit were unrelated to the License Agreement. See Mot. Hr’g, ECF No. 26. This position goes against a fundamental canon of contract construction: that a court should give force to every word in a contract. Koshland v. Columbia Ins. Co., 130 N.E. 41, 44 (Mass. 1921). There is no reason why two parties could not contract to settle any patent dispute between them in arbitration and that is just what these parties have done. The agreement to arbitrate is not perpetual. The License Agreement, including the obligation to arbitrate, will end when the patents referred to within it expire. License Agreement ¶ 3. Finally, it is undisputed that the patents-in-suit that form the basis for this lawsuit are related to the License Agreement. There is nothing exceptional in compelling arbitration of this matter.

III. CONCLUSION

For foregoing reasons, the Court **GRANTS** Motion to Compel Arbitration and **ORDERS** the plaintiff, Marc Shapiro, and the lead defendant, The L.S. Starrett Company, to commence arbitration in Boston, Massachusetts pursuant to the rules of the American Arbitration Association as set forth in the License Agreement between them. ECF No. 10. The Court also **GRANTS** the Motion to Stay Proceedings. ECF No. 12. This matter is **STAYED** as between all

parties until the completion of arbitration between Shapiro and Starrett.

The Clerk is **DIRECTED** to forward a copy of this Order to all Counsel of Record.

IT IS SO ORDERED.

Robert G. Doonan

Robert G. Doonan
Senior United States District Judge

UNITED STATES DISTRICT JUDGE

Norfolk, VA
April 14, 2016