UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

Sandata Technologies, Inc., Plaintiff,	:	
v.	:	**Case No. 3:05cv1714 (JBA)**
CareWatch, Inc., Defendant.	:	

RULING ON DEFENDANT'S MOTION TO STAY ACTION AND COMPEL ARBITRATION [Doc. # 10]

Plaintiff Sandata Technologies, Inc. ("Sandata"), instituted this action asserting claims of patent infringement against defendant CareWatch, Inc. ("CareWatch") for failure to comply with its obligations under a license agreement entered into between defendant and MCI WorldCom Network Services, Inc. (whose interest was allegedly later assigned to Sandata) ("License Agreement" or "Agreement")). See Complaint [Doc. # 1]. CareWatch now moves to stay this action and compel arbitration pursuant to the arbitration clause in the License Agreement and in accordance with the Federal Arbitration Act, 9 U.S.C. §§ 3, 4. See [Doc. # 10]. For the reasons that follow, defendant's motion is GRANTED.

I. Discussion

Plaintiff alleges that three patents, of which plaintiff is now the owner (by assignment), are the subject of the License Agreement entered into between defendant and MCI WorldCom Network Services, Inc. (later assigned to plaintiff), and that in

September 2005 defendant breached that agreement by failing to consent to an audit of its books and records pursuant to the terms of the Agreement. Complaint ¶¶ 7-12. Plaintiff alleges that when defendant failed to timely cure its breach, after given written notice, plaintiff terminated all of defendant's rights thereunder, including its license rights under the three patents. Id. ¶ 13. Plaintiff alleges that defendant has since infringed claims in the three patents by making, using, selling and/or offering for sale the system patented therein. Id. ¶¶ 15-26.

The License Agreement provides in relevant part:

> Any dispute arising out of or related to this Agreement, which cannot promptly be resolved by negotiation, shall be settled by binding arbitration conducted in Washington, D.C., in accordance with the J.A.M.S/ENDISPUTE Arbitration Rules and Procedures, as amended by this Agreement.

License Agreement [Doc. # 11, Ex. 1] at ¶ 10.2. Defendant now seeks to stay this action and compel arbitration on the basis of this provision, arguing that plaintiff's action is for breach of the License Agreement and, as such, must be arbitrated pursuant to the terms of that Agreement.[1]

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[1] The Court notes that the License Agreement was originally entered into between Datawatch, Inc. and MCI WorldCom Network Services, Inc. CareWatch has since assumed all of Datawatch Inc.'s rights and obligations under the Agreement, and Sandata has alleged assumed all of MCI WordCom Network Services, Inc.'s rights and obligations under the Agreement and to the patents at issue. As a general matter non-signatories to an arbitration agreement can be bound to that agreement under certain circumstances, see generally Thomson-CSF, S.A. v. Am. Arbitration Ass'n, 64 F.3d 773, 777-80 (2d Cir. 1995), and neither party

The Federal Arbitration Act ("FAA"), 9 U.S.C. §§ 1 et seq., expresses:

> Congress's clear intent . . . to move [] parties to an arbitrable dispute out of court and into arbitration as quickly and easily as possible. The Act provides two parallel devices for enforcing an arbitration agreement: a stay of litigation in any case raising a dispute referable to arbitration, 9 U.S.C. § 3, and an affirmative order to engage in arbitration, § 4. Both of these sections call for an expeditious and summary hearing, with only restricted inquiry into factual issues.

Moses H. Cone Mem. Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 22 (1983). Section 2 of the FAA provides that any arbitration provision in any "contract evidencing a transaction involving commerce" "shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." 9 U.S.C. § 2. Section 3 gives this Court the authority to stay a pending action "upon being satisfied that the issue involved in such [action] is referable to arbitration under such an agreement . . . until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration." Id. § 3. Section 4 entrusts the Court with the power to compel such arbitration. Id. § 4.

In determining whether to stay proceedings pending arbitration, the Court engages in a four-pronged analysis:

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appears to dispute the applicability of the arbitration provision.

> First, [the Court] must determine whether the parties agreed to arbitrate; second, [the Court] must determine the scope of that agreement; third, if federal statutory claims are asserted, [the Court] must consider whether Congress intended those claims to be nonarbitrable; and fourth, if the [C]ourt concludes that some, but not all, of the claims in the case are arbitrable, it must then decide whether to stay the balance of the proceedings pending arbitration.

Oldroyd v. Elmira Savings Bank, FSB, 134 F.3d 72, 75-76 (2d Cir. 1998). Here, the parties do not dispute that the License Agreement contains an arbitration agreement. Rather, Sandata contests the scope of the arbitration provision and thus, while not opposing a stay to arbitrate CareWatch's alleged breach of the Agreement, seeks a stay of not more than 90 days.

"In determining whether a particular claim falls within the scope of the parties' arbitration agreement, we focus on the factual allegations in the complaint rather than the legal causes of action asserted." Genesco, Inc. v. T. Kakiushi & Co, Ltd., 815 F.2d 840, 846 (2d Cir. 1987) (citing Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985)). "If the allegations underlying the claims 'touch matters' covered by the parties' [agreement], then those claims must be arbitrated, whatever the legal labels attached to them." Id. In accordance with the "strong federal policy favoring arbitration as an alternative means of dispute resolution," arbitration clauses are construed "as broadly as possible" and "'the existence of a broad agreement to arbitrate creates a presumption of arbitrability

which is only overcome if it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that [it] covers the asserted dispute.'" Oldroyd, 134 F.3d at 76 (citing World-Crisa Corp. v. Armstrong, 129 F.3d 71, 74 (2d Cir. 1997)).

As noted above, the arbitration provision in the License Agreement is without limitation, requiring arbitration of "[a]ny dispute arising out of or related to this Agreement." License Agreement ¶ 10.2. The allegations of the complaint are that CareWatch breached the Agreement by failing to consent to the requested audit, that Sandata thus terminated all of defendant's rights under the license agreement, and that defendant has since infringed claims of Sandata's patents by making, using, selling and/or offering for sale the patented system without a valid license to do so. Whether Sandata was validly assigned MCI's License Agreement and patent rights, whether CareWatch breached the License Agreement, and whether Sandata validly terminated CareWatch's rights under the Agreement as a result are clearly matters falling within the scope of the arbitration provision as they directly relate to the operation and interpretation of the License Agreement.

It is less obvious whether, in the event that the arbitrator concludes that CareWatch breached the Agreement and that Sandata validly terminated CareWatch's rights therein, Sandata's patent

infringement claims would fall within the scope of the arbitration provision, but considering the broad nature of the arbitration provision, in light of the policy favoring liberal construction of arbitration agreements and the presumption of arbitrability articulated by the Second Circuit in Oldroyd, and given that resolution of the License Agreement issues is a necessary predicate to the adjudication of any patent infringement claims, the Court concludes that such claims "touch matters" covered by the parties' arbitration agreement and that they thus fall within the scope of that agreement. See Genesco, 815 F.2d at 846 ("If the allegations underlying the claims 'touch matters' covered by the parties' . . . agreements, then those claims must be arbitrated, whatever the legal labels attached to them."). Moreover, "patent infringement claims may be resolved by arbitration." Winn v. Ballet Makers, Inc., 87civ7286 (SAS), 1995 WL 611335, at *3 (S.D.N.Y. Oct. 18, 1995) (citing 35 U.S.C. § 294), aff'd 29 F.3d 134 (Fed. Cir. 1997).

Thus, the Court stays this action in favor of arbitration and compels arbitration in accordance with the terms of the arbitration provision in the License Agreement, at such time and place as selected by the parties.

II. Conclusion

For the foregoing reasons, CareWatch's Motion to Stay Action and Compel Arbitration [Doc. # 10] is GRANTED, as outlined above.

Inasmuch as the time necessary to complete the arbitration is unknown, this case will be administratively CLOSED pending arbitration proceedings. Either party may have this case restored to the active docket by motion, which will be granted if filed no later than 45 days following completion of the arbitration proceedings. Such motion shall be accompanied by a Supplemental 26(f) Planning Report so that a revised case scheduling order can be issued.

IT IS SO ORDERED.

/s/
Janet Bond Arterton
United States District Judge

Dated at New Haven, Connecticut this 20th day of April, 2006.