

Should Our Contract or License Provide for Arbitration?

Arbitration can provide significant advantages for patent disputes. Patent cases are among the most expensive cases to litigate. A number of things make them expensive. There is normally a need for highly qualified technical and financial experts. Evaluating and gathering facts regarding the validity and infringement of patents is often time consuming and complex. The typical approach to litigation in these cases involves significant amounts of discovery to “leave no stone unturned.” The claim construction process is often elaborate. And proving or disproving damages can be fact intensive and expensive.

Presenting the case is an art, particularly if there is a jury. You will typically need a “story line” to keep the jurors’ attention. Often, difficult legal, scientific, and technical concepts need to be explained to people typically not used to dealing with patents and technical issues. You may need a jury consultant to help you develop good themes and explanations. At the same time, you need to be sure to have the right kind of technical information in the record to prove or disprove infringement, address the test for patent invalidity, and meet all the legal requirements of the claims or defenses. Jury instructions must be carefully crafted to explain patent law to folks who likely have never been exposed to it.

Then you re-address it all in post-trial motions and on appeal. It is no wonder that patent disputes can cost a fortune.

FITTING THE COST TO THE DISPUTE

Many disputes simply can't bear the kind of expense involved in a typical patent case. Arbitrating such disputes can help reduce those expenses significantly. The rub is, of course, that it is rare—though not unheard of—for parties to agree to submit cases to arbitration after a dispute has arisen.

Arbitrated patent disputes usually arise out of some sort of earlier contract. These include patent license agreements, employee invention agreements, or development agreements. Each of these written agreements provides a chance to insert an arbitration clause at the time of contracting—if the parties can agree to one.

ARBITRATE OR NOT?

But should you propose or agree to an arbitration clause in your next license, development, or patent-related employment agreement? It depends. Parties who would rather litigate than arbitrate may feel that way because they like the availability of exhaustive discovery, a jury trial, the prospect of full appellate review, or all those things. Typically, discovery in arbitration is more limited. Juries aren't involved. And the standard of review is quite limited, even if the arbitrator is wrong on the law or misapprehends the facts—at least as one side sees it!

Yet, full discovery is expensive and not always worth it. Many patent disputes are more about interpreting the claims, seeing if they are valid, seeing if the accused product or process falls within the claims if they are valid, and determining the royalty rate and sales. That doesn't normally require "scorched earth" discovery.

Juror fact-finding may well not be that useful. Jury trials tend to turn into morality plays with villains and heroes. Your

client likely will just want an answer as to whether it has to pay royalties, who owns the new patent on products developed, or the like. You may be best off skipping all the drama.

The American Arbitration Association Commercial Rules and rules of other arbitration organizations allow parties to agree in their contract to appellate arbitral review if parties are worried about lack of review. We address that further in Chapters 6 and 21.

The bottom line is this: It is likely that many disputes that arise from the kinds of contracts likely to have arbitration clauses in them don't have enough at stake to justify the sort of "gold standard" litigation involved between competitors fighting over patent issues in a typical noncontract-based dispute. Arbitration is often just the ticket for contract-based patent disputes.

If you ask around your office or the bar about arbitration in general, you may get some strong opinions about whether it is a good idea or not. Some lawyers, like me, have had experiences in arbitrating cases where the savings and efficiency were quite clear. They "love arbitration," or at least like it. Others have had bad experiences in arbitration where, at least as far as they can see, things were as drawn out and expensive as court. Or they didn't like the result. And they "hate arbitration!"

I would suggest that you take a little more nuanced approach. No one can really run the same case through both arbitration and trial. But if you could, I believe most often you would find arbitration—while not cheap—is certainly cheaper than a trial and appeal. I have been involved in a number of cases as counsel or arbitrator that began as cases in court and were settled with a license agreement after fairly extensive discovery and motion practice. Many of them included an arbitration clause in the license. This suggests that a number of lawyers and their clients, fresh from the whole litigation experience, decided arbitration made more sense. I know my clients and I thought it did in my cases.

Arbitration provides two other significant advantages that you should consider when determining whether to use it or not. First, it provides a chance for you to have significant input

into the selection of the arbitrator or panel. Depending on your agreement, you are provided a list of arbitrators that both sides are able to strike or rate in order of preference.³ Or you can opt to have each side select an arbitrator who will select a third, or even select an arbitrator both parties agree would be fair at the outset.⁴ You never get that sort of chance in a court where the judges are randomly assigned.

Second, arbitrations are private. Arbitration rules require arbitrators and the arbitral organization to keep the matter private.⁵ By contrast, most courts recognize a constitutional right of public access to court proceedings and even documents filed in court.⁶ This right is not absolute, of course, and can yield to such things as keeping secret business information from being made public.⁷

In arbitration, though, the very *fact* of the dispute is private. The parties are not necessarily bound to secrecy unless they enter a protective order, and arbitration records may be subject to later discovery in certain cases. But the parties' dispute is never routinely placed in the public record and searchable by anyone with access to the internet and a Pacer account. Many parties will find settling their business disputes on patent matters privately to be very attractive.

On the other hand, if your client's situation could involve "bet the company"—or at least "bet the product line"—disputes, you may want access to all the discovery procedures and Federal

³ See, e.g., AAA Commercial Rule 12, available at ADR.org.

⁴ See, e.g., AAA Commercial Rules 13–14.

⁵ See, e.g., AAA Commercial Rule 25 ("The arbitrator and the AAA shall maintain the privacy of the hearings unless the law provides to the contrary.").

⁶ See *Nixon v. Warner Communications, Inc.*, 435 U.S. 589, 598 (1978) (It is clear that the courts of this country recognize a general right to inspect and copy public records and documents, including judicial records and documents.); see, e.g., *Shane Group Inc. v. Blue Cross Blue Shield of Michigan*, 825 F.2d 299, 305 (6th Cir. 2016) (the courts have long recognized a "strong presumption in favor of openness" as to court records; only "the most compelling reasons can justify non-disclosure of judicial records.").

⁷ *Id.*

Circuit review that can go into a patent case. That is likely to be a rare case. And remember, you normally will be dealing with a license agreement or product development agreement that is not a “bet the company” situation. Your client often will just want to get the matter decided privately, quickly, and as inexpensively as it can so it can get on with its business.

It is worth noting that parties normally don’t really foresee any disputes happening when they negotiate their deal. If they did, they probably wouldn’t do the deal. So arbitration provisions often are not top-of-mind while they negotiate their agreement.

Lawyers know better. Disputes happen all the time. Thus, if you want to incorporate the benefits of arbitration in the next deal, you will often have to propose it. That isn’t always an easy sell when the real focus is on the substance of the deal. You—or your colleague negotiating the deal—will need to be persuasive and persistent to realize the benefits of patent arbitration.

Let’s now assume that, based on counsel’s advice, the parties agreed arbitration is the way to go to solve patent-related disputes if they do arise in the future. There still are quite a few more decisions to make.

ADMINISTERED OR NOT?

The parties will have to choose between administered and nonadministered arbitration. This is an easy decision for me. Administering your case through an arbitration organization, like the American Arbitration Association (AAA), provides at least these advantages:

1. professional case administration;
2. a set of rules that have been carefully vetted and improved based on experience over the years. AAA, for example, has developed a set of supplementary rules for patent cases⁸;

⁸ See AAA Resolution of Patent Disputes Supplementary Rules, available at ADR.org.

3. access to panels of a large number of qualified, trained, and experienced arbitrators; and
4. a procedure to address disputes about conflicts, impartiality of an arbitrator, and the like.

Of course, nonadministered arbitrations save the filing fees, which can be substantial in a large dispute. But the actual savings are not necessarily very much. Someone still has to administer the arbitration, and it can be expensive to have the arbitrator attend to those details.

And having an arbitration organization gives you a place to start. Without one, your first step is to work with your opponent to get things started. You are seeking to enforce a contractual commitment made to arbitrate a dispute. But what if you represent the claimant, and the respondent decides it doesn't want to arbitrate and refuses to cooperate? Off to court you go to enforce the contract. That is not a good way to start a dispute resolution process that was meant to avoid court.

With an arbitration organization, you start there. You can file your case online with most organizations, pay the fee, and off you go.⁹ If your opponent decides to boycott the arbitration, the matter goes on without them. An award will issue after a hearing even if they don't participate.¹⁰

Access to a list of well-qualified arbitrators is valuable. It isn't easy to join the panel of most arbitral organizations. AAA and JAMS arbitrators, for example, are carefully vetted and are well-regarded members of the bar, former judges, or experts in their profession or industry. The qualification process doesn't stop with getting on the panel. Once they are allowed on the panel, AAA, for example, requires its arbitrators to take training courses and continuing education regarding arbitration law and practice. Arbitrators who have proven not to be effective can be eliminated from the organization's panels. And the parties have great input into who the arbitrators will be. A "bad" arbitrator will get a reputation and won't get picked.

⁹ *E.g.*, at adr.org for the AAA.

¹⁰ AAA Commercial Rule 31.

Having an organization available to manage the selection process can be crucial. In the absence of someone to decide any disputes that arise, you may be off to court to get a decision on who should arbitrate under the terms of the parties' agreement. That would be time consuming and expensive.

Also valuable is having an organization to handle questions about conflicts or issues regarding arbitrator impartiality. Arbitrators are required to make detailed disclosures of relationships and other matters that might reasonably raise a question of whether an arbitrator is impartial.¹¹ The parties may disagree as to whether a particular disclosure actually raises a genuine issue as to impartiality, particularly when a disclosure has to be made after the arbitrator has been chosen. This can lead to disputes.

Let's face it. There is no graceful way to tell an arbitrator you've decided he or she is not really impartial and should remove himself or herself from the arbitration. This decision is, in the first instance, for the arbitrator if no arbitral organization is involved to decide the issue. It is never a comfortable thing to have to press your position questioning the fitness to arbitrate to the very person making the decision.

And, if you have to approach a court with motion practice to iron out those disputes, you will lose some of the cost advantage of arbitration. After all, your client was hoping to avoid expensive court battles when it chose arbitration. Administered arbitration avoids that by having an administrator determine issues of impartiality.¹²

Still, I have noted that some lawyers are just not disposed to pay arbitration administration fees if they can help it. This leads to a new possibility: *à la carte* case management.

The AAA has adopted rules that allow the parties to have only certain aspects of the case administered, for example arbitrator selection, or determining possible disputes as to impartiality. Arbitral appeals can also be done *à la carte*, although you'd

¹¹ *E.g.*, AAA Commercial Rule 17.

¹² *E.g.*, AAA Commercial Rule 18(c).

better agree to that in the agreement or the winning party isn't going to have any interest in agreeing to an appeal.

Have a look at adr.org, the AAA's website,¹³ for a list of *à la carte* services and a fee schedule for those services, if you are so inclined. It may be that if you run into counsel that just doesn't like the cost of fully administered arbitration, you can agree that at least these critical issues can be managed by a neutral organization if they arise. That might be enough to get an arbitration clause in the agreement if cost is the obstacle.

Once you have determined whether or not to have an administered arbitration, you are on to determining other aspects of the arbitration, starting with the arbitration clause. But first, we explore another consideration that arises now that the America Invents Act is in place. If you represent a licensee or a client in a similar position, why not plan to simply challenge the asserted patents at the Patent Office if a problem arises? These challenges have become popular and promise a relatively quick and inexpensive means to resolve at least some disputes. So why commit to arbitration? We take that up in the next chapter.

¹³ Available at adr.org under "AAA® *à la carte* services."