

## **HOW ARBITRATION WORKS: DISCOVERY, MOTIONS, HEARINGS**

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Arbitration has been a federally sanctioned and encouraged method of dispute resolution since at least 1925, when Congress passed the Federal Arbitration Act (FAA), now codified as Title 9 of the United States Code. As an option to litigation, arbitration remains one of the most accepted and widely applied forms of alternate dispute resolution (or “ADR”). Disputes over intellectual property rights give rise to special considerations for those contemplating arbitration.

As for many other substantive legal areas, an arbitration agreement involving intellectual property rights typically initiates the arbitration proceeding. Arbitration agreements fall broadly into two categories: pre-dispute agreements, generally incorporated into contracts concerning commercial transactions in the hope and expectation that disputes will not arise; and agreements to arbitrate a concrete dispute that has already arisen. The parties enter into pre-dispute agreements before either party has a full understanding of what may be gained or lost in a particular dispute by giving up the right to sue (or be sued) in court. Consent is the touchstone of arbitration and, once the dispute has arisen, often one party or the other will see a benefit to remaining within the traditional legal system and will withhold its consent. Thus, pre-dispute agreements are the more common of the two types.

In the area of intellectual property disputes, infringement claims usually arise between parties who are strangers, contractually speaking, to one another. Although it is certainly true that a former franchisee may be sued for trademark infringement once the franchise is revoked, or that a licensee under a patent may sue a licensor seeking to invalidate the patent that is the subject of the license, such cases are more the exception than the rule. More often, competitors sue one another for infringement without the existence of pre-dispute contractual arbitration

agreements. In addition, most corporations overwhelmingly favor arbitration for disputes involving relatively small stakes, but few prefer arbitration when the risks exceed the six or seven figures common in intellectual property disputes. Perhaps for these reasons, it may be the case that, in the area of intellectual property disputes, arbitration is less prevalent than in other areas of commercial law.

Still, the possibility of arbitrating a patent, trademark, copyright, or trade secret dispute is a real one. These particular areas of the law raise unique concerns, both procedural and substantive. Such concerns begin with drafting an arbitration clause as part of an agreement involving intellectual property or perhaps a separate agreement to arbitrate an intellectual property dispute. They continue with questions about whether an agreement to arbitrate will be upheld--especially in the international arena--and, if upheld, whether the result of the proceeding--especially a decision invalidating a patent, trademark, or copyright--will be confirmed and can be enforced. Much has been written addressing these and other concerns raised by the general topic of arbitration in the intellectual property area.

This article focuses more narrowly on the procedural “nuts and bolts” of an arbitration proceeding: discovery, preparing and filing motions, and the conduct of hearings. Aspects of these procedures specific to intellectual property arbitration are highlighted. An introduction section identifies the various types of arbitration and outlines the federal and state arbitration statutes. In the next section, titled “Sources of Help,” the article mentions various rules and the agencies, organizations, and associations available to guide parties who wish to conduct an arbitration proceeding. The next three sections of the article address discovery, motions, and hearings, respectively. Finally, the article concludes, among other things, that the parties have

the opportunity in most instances to shape the procedures of the arbitration process to their own particular needs.

## **I. *Introduction***

Binding arbitration is one of the most accepted and widely applied forms of ADR tools. It has been used to resolve a variety of disputes in different cultures and industries. The several types of arbitration have facilitated its wide application. Administered or “institutional” arbitration is conducted by an independent agency, which typically charges a fee to oversee the proceedings. Some of these agencies are identified below. In contrast, in an ad hoc or non-administered arbitration, the parties appoint one or more arbitrators (hereinafter, “arbitrator” is meant to cover one or multiple arbitrators) who supervise the proceedings without institutional guidance. The arbitration rules of an established organization (see below) may be adopted, or the parties may draft their own rules entirely or partially.<sup>1</sup> Ad hoc arbitration is typically chosen when the parties are sophisticated in arbitration, particularly when the arbitration is part of a repetitive pattern, or for small cases.

As an alternative to one of the forms of binding arbitration outlined above, the parties may chose an informal, non-binding (advisory) arbitration when attempting to resolve their dispute. Typically, non-binding arbitration works in the same way as does binding arbitration with a few exceptions. The primary distinction, of course, is that the award in non-binding arbitration seeks to encourage voluntary settlement rather than to bind the parties. Consequently, the practice rules under which the non-binding proceeding is conducted can be relaxed even more than for binding arbitration: rules of evidence can be less stringent, discovery can be

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<sup>1</sup> Because the rules of some agencies state that an agreement to arbitrate under their rules authorizes that agency to administer the arbitration, the parties must consider, in their arbitration contract, the ramifications of choosing both a set of applicable rules and who will oversee the proceedings. *See, e.g.*, Commercial Arbitration Rule 2 of the American Arbitration Association (“When parties agree to arbitrate under these rules . . . they thereby authorize the AAA to administer the arbitration.”).

truncated, and the case can be presented by counsel with client input but without presenting witnesses. The suggested resolution or award may be presented orally (rather than in writing) by the arbitrator. To induce settlement, the arbitrator also should orally give reasons explaining the strengths and weaknesses of each party's case.<sup>2</sup>

Congress and the courts have embraced non-binding arbitration with statutes and local rules that offer or mandate "court-administered" or "court-annexed" arbitration.<sup>3</sup> Several district courts require parties in certain disputes to submit to arbitration before they are allowed to argue their case in court.<sup>4</sup> The arbitration award can be challenged, by requesting a trial de novo, within a certain period of time (typically thirty days).<sup>5</sup> Absent a timely challenge, however, the arbitrator's award is confirmed as a court judgment. Many of the local rules concerning court-administered arbitration provide little guidance for the procedural conduct of the proceeding. Therefore, the parties may face the decision between submitting to mandatory, non-binding arbitration under the local rules of a district court or voluntarily agreeing to arbitrate under guidelines (i.e., administered or ad hoc arbitration) selected by the parties themselves.

If federal provisions such as the FAA are inapplicable,<sup>6</sup> state laws may fill the void. State laws are usually patterned after the FAA or the Uniform Arbitration Act (UAA). The UAA was created by the National Conference of Commissioners on Uniform State Laws (NCCUSL) and approved by the House of Delegates of the American Bar Association (ABA) in 1955-56; it was

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<sup>2</sup> T. Arnold, *Patent Alternative Dispute Resolution Handbook* ch. 8 (1991).

<sup>3</sup> Under the "Alternative Dispute Resolution Act of 1998, H.R. 3528, signed into law in 1999, all federal courts must adopt local rules directed to court-annexed mediation and arbitration. In addition, some federal and state statutes create procedural rules that apply to arbitration within the scope of the particular statute. The "lemon law" statutes enacted by many states, directed to automobiles, are typical.

<sup>4</sup> See, e.g., N.D. Calif. R. 500-2, Mandatory Arbitration (requiring mandatory arbitration for all civil cases, in which the United States is not a party, which seek relief less than a certain dollar amount and are founded on diversity of citizenship).

<sup>5</sup> See *Parker v. Babcock*, 37 Cal. App. 4<sup>th</sup> 1682, 44 Cal. Rptr. 2d 602 (1995) (the opportunity for a de novo trial is what principally distinguishes court-annexed arbitration pursuant to the Judicial Arbitration Act from private arbitration conducted pursuant to party agreement).

<sup>6</sup> The FAA encompasses primarily interstate commerce. Intrastate disputes are governed by applicable state arbitration statutes.

revised in 2000.<sup>7</sup> The UAA covers many substantive and procedural aspects of arbitration that are not specifically addressed by the FAA, including depositions. A list of the arbitration statutes for the fifty states and the District of Columbia follows this article.

As a general proposition, the FAA, the UAA, state arbitration statutes, and the rules of the various arbitral institutions are intentionally designed to provide for a dispute resolution method different from a court or jury trial governed by formal procedural and evidentiary rules. Many who oppose arbitration do so, however, because they perceive that arbitration means no discovery, no rules of evidence, no cross-examination of witnesses, no record of the proceedings, and no written opinion. Such perceptions are inaccurate. The parties can have discovery, rules of evidence, cross-examination, a record, and a written opinion—among other procedures—if they expressly require such procedures in their arbitration contract. Of course, if the parties go too far and contract for most or all of the procedures normally inherent in litigation, they will also likely experience the expenses and delays of litigation.<sup>8</sup>

## **II. *Sources of Help***

Regardless of the type of arbitration, it is important that the parties and the arbitrator have some guidelines under which to conduct the arbitration. A recommended approach is to adopt an agency's rules with such modifications as desired and as recited in the agreement to arbitrate. When adopting rules, however, the parties should be as specific as possible. For example, the American Arbitration Association (AAA) ([www.adr.org](http://www.adr.org)), an international non-profit entity founded in 1926 and dedicated to ADR with regional offices in most states, has several sets of

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<sup>7</sup> The text of the revised UAA can be found at [www.law.upenn.edu/bll/ulc/ulc\\_frame](http://www.law.upenn.edu/bll/ulc/ulc_frame). See generally, T. Heinsz, "The Revised Uniform Arbitration Act: An Overview," 56 Disp. Resol. J. 28 (2001).

<sup>8</sup> Judge Learned Hand cautioned: "Arbitration may or may not be a desirable substitute for trials in courts; as to that the parties must decide in each instance. But when they have adopted it, they must be content with its informalities; they may not hedge about it with those procedural limitations which it is precisely its purpose to avoid. They must content themselves with looser approximations to the enforcement of their rights than those that the law accords them, when they resort to its machinery."

rules, among them the AAA International Arbitration Rules, the AAA Commercial Arbitration Rules, and the AAA Patent Arbitration Rules. Which rules apply if the parties' contract specifies only "the AAA rules"?<sup>9</sup> Moreover, too often parties adopt reference rules they have never read or considered. One way to reduce this risk would be to attach a copy of the reference rules as an exhibit or appendix to the arbitration contract.

Perhaps the most widely used rules in the United States, for ad hoc arbitration, are those promulgated by the CPR Institute for Dispute Resolution (CPR) ([www.cpradr.org](http://www.cpradr.org)) (formerly the Center for Public Resources, Inc., founded in 1977), an independent non-profit organization created by an alliance of major U.S. corporations and leading law firms. For administered arbitration, the rules of the AAA are favored by many. JAMS/Endispute ([www.jamsadr.com](http://www.jamsadr.com)) is one example of a for-profit entity operating in most areas of the United States and having published procedural arbitration rules. There are many other private or independent entities that have their own set of procedural rules, such as the National Arbitration Forum ([www.arb-forum.com](http://www.arb-forum.com)).

Other rules may be useful in a particular situation. The arbitration of international commercial disputes is not new, for example, and will only increase in our expanding global economy.<sup>10</sup> It is beyond the scope of this article to address the specific considerations in arbitrating an international dispute. The AAA and CPR have international rules specifically drafted for such disputes. The primary entities specializing in international ADR are the World Intellectual Property Organization (WIPO) ([www.arbiter.wipo.int](http://www.arbiter.wipo.int)) in Geneva, the International Chamber of Commerce (ICC) ([www.iccwbo.org](http://www.iccwbo.org)) in Paris, the United Nations Commission on

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*American Almond Prod. Co. v. Consolidated Pecan Sales Co.*, 144 F.2d 448, 451 (2d Cir. 1944), quoted in Tupman, "Discovery and Evidence in U.S. Arbitration," 44 Arb. J. 28 (Mar. 1989).

<sup>9</sup> When used in this article, the term "AAA Rules" refers to the AAA Commercial Arbitration Rules rather than to any of the other rules offered by the AAA.

International Trade Law (UNCITRAL) ([www.uncitral.org](http://www.uncitral.org)), the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) ([www.chamber.se/arbitration/english](http://www.chamber.se/arbitration/english)), the London Court of International Arbitration (LCIA) ([www.lcia-arbitration.com](http://www.lcia-arbitration.com)), the Japan Commercial Arbitration Association (JCAA) ([www.jca.or.jp](http://www.jca.or.jp)), the Commercial Arbitration and Mediation Center for the Americas (CAMCA), the Hong Kong International Arbitration Centre, the Netherlands Arbitration Institute, and the International Centre for Settlement of Investment Disputes (ICSID).<sup>11</sup>

In addition to private and public forums for arbitration, the procedure has spawned many professional organizations and associations. A partial list includes the Society of Professionals in Dispute Resolution (SPIDR) (organized in 1973); the National Institute of Dispute Resolution (NIDR) (organized in 1983); and specific sections of the American Intellectual Property Law Association (AIPLA), the American Association of Law Schools (AALS), and the ABA. Publications on the topic abound, including those of some of the listed organizations (e.g., newsletters of CPR and NIDR) and several specialized law reviews. In addition, most law schools offer courses that cover arbitration. In summary, there is no shortage of information available regarding arbitration; the challenge is sifting through the large amount of information to find useful guidance on a particular question.

### **III. *Discovery***

Perhaps the most important distinction between arbitration and litigation lies in discovery. In a court case, discovery is a way of life and often takes on an expensive and time-consuming life of its own. In arbitration, discovery, as a general rule, is not available unless the parties have provided for discovery in the arbitration contract or later voluntarily agree to

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<sup>10</sup> International arbitration is subject to 9 U.S.C. § 201 et seq. (Convention on the Recognition and Enforcement of Foreign Arbitral Awards) and 9 U.S.C. § 301 et seq. (Inter-American Convention on International Commercial Arbitration).

conduct discovery. This limitation is consistent with the policy underpinnings of arbitration: speed, efficiency, and reduced expense.<sup>12</sup> In fact, one of the touted advantages of arbitration is the avoidance of the substantial burdens of discovery under the Federal Rules of Civil Procedure. The degree of formality and the nature and extent of discovery in arbitration can vary with the relationships involved, the nature of the dispute, and the choice of governing rules. The established rules of arbitration differ in their treatment of discovery.

**A. Summary of Selected Rules**

1. **FAA.** The FAA does not refer to discovery by written interrogatories, requests for admissions, depositions, or document requests. The courts have rejected the view that, because the FAA is silent, the Federal Rules of Evidence and of Civil Procedure apply. In one case,<sup>13</sup> for example, the respondent sought to depose the petitioner's employees before the arbitration hearing contending that, because the FAA did not provide for a pre-hearing discovery procedure, Fed. R. Civ. P. 81(a)(3) should make the federal discovery rules applicable to the arbitration proceedings. Rule 81(a)(3) provides that, in "proceedings under [the FAA], these rules apply only to the extent that matters of procedure are not provided for in [the FAA]." The court rejected the contention, holding that the term "proceedings under" refers to judicial proceedings collateral to the arbitration proceedings rather than to the arbitration proceedings themselves.

The court further held that, when discovery is sought during the arbitration proceeding on the merits, judicial rules for discovery do not apply:

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<sup>11</sup> For a copy of many of these sets of rules, send an electronic communication to the author at [krcasey@ratnerprestia.com](mailto:krcasey@ratnerprestia.com).

<sup>12</sup> See, e.g., *Burton v. Bush*, 614 F.2d 389, 390 (4<sup>th</sup> Cir. 1980); *Suarez-Valdez v. Shearson Lehman/Am. Express, Inc.*, 845 F.2d 950 (11<sup>th</sup> Cir. 1988).

<sup>13</sup> *Commercial Solvents Corp. v. Louisiana Liquid Fertilizer Co.*, 20 F.R.D. 359 (S.D.N.Y. 1957).

By voluntarily becoming a party to a contract in which arbitration was the agreed mode for settling disputes thereunder respondent chose to avail itself of procedures peculiar to the arbitral process rather than those used in judicial determinations. “A main object of a voluntary submission to arbitration is the avoidance of formal and technical preparation of a case for the usual procedure of a judicial trial.” 1 Wigmore, Evidence § 4(e) (3d ed. 1940). . . . [A] party having chosen to arbitrate cannot then vacillate and successfully urge a preference for a unique combination of litigation and arbitration. The proposition that “[arbitration] is merely a form of trial . . .” which stated thus broadly might indicate the propriety of pre-hearing discovery in arbitration, was rejected by the Supreme Court in *Bernhardt v. Polygraphic Co.*, 1956, 350 U.S. 198.

The fundamental differences between the fact-finding process of a judicial tribunal and those of a panel of arbitrators demonstrate the need of pretrial discovery in the one and its superfluity and utter incompatibility in the other.<sup>14</sup>

Although pre-hearing discovery is not generally available to the parties,<sup>15</sup> Section 7 of the FAA does give the arbitrator the power to summon witnesses to testify and to order production

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<sup>14</sup> *Id.* at 361-62; *accord, e.g., Burton*, 614 F.2d 389; *Penn Tanker Co. v. C.H.Z. Rolimpex Warszawa*, 199 F. Supp. 716 (S.D.N.Y. 1961).

<sup>15</sup> With respect to arbitrator orders of pre-hearing depositions of non-parties, for example, the courts are inconsistent. Some courts hold that the FAA does not permit such an order because the arbitration contract binds only the parties. *Integrity Ins. Co. v. American Centennial Ins. Co.*, 885 F. Supp. 69, 71 (S.D.N.Y. 1995). Other courts would not so limit the arbitrator’s authority. *Stanton v. Paine Webber Jackson & Curtis, Inc.*, 685 F. Supp. 1241, 1242-43 (S.D. Fla. 1988) (plaintiff’s motion for an order enjoining defendant from obtaining subpoenas and requesting documents prior to an arbitration hearing was denied).

by the witnesses of “any book, record, document, or paper which may be deemed material as evidence in the case” at the arbitration hearing. The arbitrator’s subpoena power may be limited to witnesses and documents within the federal judicial district (or 100 miles) unless the arbitration contract expressly includes the Federal Rules of Civil Procedure, which permit the issuance and enforcement of subpoenas in other districts.<sup>16</sup> This subpoena power has been held to provide a legal basis for pre-hearing discovery in arbitrations governed by the FAA.<sup>17</sup> The arbitrator has rather broad authority to permit and control discovery or, as one court put it, almost “anything goes” before the arbitrator.<sup>18</sup>

2. **UAA.** Like the FAA, the UAA also does not provide for discovery. UAA § 7 does contain a provision comparable to the FAA, however, which permits a party to obtain evidence at the hearing. The arbitrators may also permit depositions to be taken, under UAA § 7(b), for use as evidence when a witness “cannot be subpoenaed or is unable to attend the hearing.”

3. **AAA.** Consistent with the FAA and the UAA, the AAA Commercial Arbitration Rules do not give a party a right to discovery.<sup>19</sup> Thus, if the parties stipulate that the AAA Rules govern their arbitration, they waive their right to engage in discovery.<sup>20</sup> Nevertheless, several AAA rules, taken together, give the arbitrator authority to allow and

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<sup>16</sup> *Commercial Solvents Corp.*, 20 F.R.D. at 362-63; *Amgen Inc. v. Kidney Center of Delaware County, Ltd.*, 879 F. Supp. 878, 883 (N.D. Ill. 1995), *appeal dismissed*, 101 F.3d 110 (7<sup>th</sup> Cir. 1996); S. Koda, “Subpoena Issues in Arbitration,” in Currents: The Newsletter of Dispute Resolution Law and Practice (ABA, Spring 1997).

<sup>17</sup> *See, e.g., Stanton*, 685 F. Supp. at 1242-43 (“under the Arbitration Act, the arbitrators may order and conduct such discovery as they find necessary . . . . Plaintiffs’ contention that § 7 of the Arbitration Act only permits the arbitrators to compel witnesses at the hearing, and prohibits pre-hearing appearances, is unfounded.”). In fact, most courts will enforce an arbitrator’s order requiring production of documents and witness lists before the actual hearing. *See, e.g., Integrity Ins. Co.*, 885 F. Supp. 69; *Meadows Indemnity Co. v. Nutmeg Ins. Co.*, 157 F.R.D. 42 (M.D. Tenn. 1994).

<sup>18</sup> *Commercial Solvents*, 20 F.R.D. at 363 (arbitrators “may be relied on to draw such inferences from the failure of the petitioner to produce [the witnesses] as they in their unreviewable judgment think the circumstances justify. Mere suggestion as to the testimony these witnesses would give if available at the hearing would in an arbitration hearing probably cast the onus on the petitioner to negate the unsupported assertion that if called their testimony would be unfavorable to its position. Fortunately or otherwise . . . almost ‘anything goes’ before arbitrators.”).

<sup>19</sup> *United Nuclear Corp. v. General Atomic Co.*, 93 N.M. 105, 597 P.2d 290 (1979).

<sup>20</sup> *Harleysville Mut. Cas. Co. v. Adair*, 421 Pa. 141, 218 A.2d 791 (1966).

