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Arbitration – Law Firms

Arbitration Clause Checklist For Intellectual Property Matters (Thirty Topics To Consider)

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The Vanishing Trial Project commissioned by the American Bar Association Section of Litigation recently reported that 98.2% of federal civil cases fail to reach trial and that, despite an increase in civil filings, the actual number of civil trials has declined. The numbers are opposite for arbitration: total arbitration filings reported by the American Arbitration Association (AAA) more than doubled between 1996 and 2002. Arbitration has been a federally sanctioned and encouraged method of dispute resolution since at least 1925, when Congress passed the Federal Arbitration Act, now codified as Title 9 of the United States Code. As an option to litigation, arbitration has grown into one of the most accepted and widely applied forms of alternate dispute resolution (ADR).

The growth in ADR is just beginning to reach the field of patents, copyrights, trademarks, trades secrets, and related matters (i.e., the intellectual property or "IP" field). The U.S. Court of Appeals for the Federal Circuit, which has exclusive jurisdiction over appeals in patent infringement cases, recently established an appellate ADR program. Many federal district courts are, if not mandating, at least encouraging parties to explore ADR before they proceed with litigation even in IP cases. Finally, a number of the private resources that offer arbitration assistance are now focusing on their IP capabilities. Such resources include, for example, the American Arbitration Association (www.adr.org), the CPR International Institute for Conflict Prevention and Resolution (www. cpradr.org), the National Arbitration Forum (www.arbforum.com), JAMS/ Endispute (www.jamsadr.com), and the International Chamber of Commerce (www.iccwbo.org).

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Parties choose arbitration as an alternative to litigation because they expect arbitration to be faster, more confidential, cheaper, more under their control, simpler, more fair, and just as enforceable when compared to litigation. Absent care in drafting the agreement to arbitrate, however, the result may actually be a dispute resolution procedure that is worse in many ways than traditional litigation. Therefore, at least as much care should be devoted to the arbitration provision as to any other provision in an agreement.

Many attorneys incorporate into agreements involving IP (e.g., licenses, joint ventures, research and development contracts, etc.) a short arbitration clause copied from one of the many resources that offer a set of arbitration rules. That approach often neglects some arbitration features that are important in IP cases and unwittingly adopts some features that should not be applied to IP cases. The checklist that follows is intended to help avoid these problems.

Omitting a lengthy discussion of each topic, provided below is a checklist of about 30 topics to consider when drafting either a provision or a full agreement obligating your company to arbitrate an IP dispute. The first five topics are perhaps the most important; several of the topics are directed to the who, what, where, and when of IP arbitration; others address how to arbitrate; and all should be considered if for no other reason than to educate or remind the drafter as the case may be. In that

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sense, the checklist can be used like any other overview form.

Checklist

(1) Provide an agreement to arbitrate (avoid insufficient detail; do not overreach):
  (a) United Nations Convention on the Recognition & Enforcement of Foreign Arbitral Awards (aka "New York Convention" for international matters)

(2) Consider a tiered dispute resolution clause:
  (a) Compulsory negotiation
  (b) Mediation

(3) What: Describe what can be arbitrated, i.e., the issues submitted to arbitration (avoid equivocation); (broad versus narrow clause)

(4) Select ad hoc versus administered arbitration:
  (a) Identify administering entity

(5) Pick a set of administrative rules:
  (a) Read the rules (avoid inattention)
  (b) Any personal modifications warranted?

(6) Specify the law, i.e., the governing law provision:
  (a) Substantive law (35 U.S.C., 17 U.S.C., 15 U.S.C., state law)
  (b) Arbitration law of the Federal Arbitration Act (or state statute)
  (c) Statute of limitations?

(7) Who: Define procedures for the appointment of arbitrators & their service:
  (a) Number of arbitrators
  (b) Neutrality of arbitrators
  (c) May need to set the arbitrators' fees
  (d) Qualifications of arbitrators (avoid over-specificity)
  (e) Can the arbitration proceed (or start over) when one arbitrator ceases to serve? Under what timing and conditions?

(8) Consider related parties and cases:
  (a) Third-party claims; joinder of third-party respondents
  (b) Are claims by or against parents and affiliates covered?
  (c) Consolidation permitted of other cases subject to arbitration?

(9) Define the process for interim or provisional remedies (if any)
  (a) Court versus arbitrators
  (b) Especially in trademark cases
  (c) Note, e.g., AAA Optional Rules for Emergency Relief

(10) Consider *Markman* parallel (claim construction) in patent cases

(11) Where: Place of the hearing

(12) Select language of the hearing

(13) Consider consent to proceed with an *ex parte* hearing when a party, having notice of the hearing, fails to appear

(14) Select evidence rules (remember, arbitration is *alternative* to litigation!)

(15) Define discovery and discovery management (continue to remember!)

(16) Consider how to control and assess fees and costs

(17) Specify form of award
  (a) Bare or "Standard"
  (b) Reasoned
  (c) Findings of fact and conclusions of law
  (d) Baseball
  (e) High-low bounded

(18) May the arbitrators award attorney fees?

(19) May the arbitrators award prejudgment interest?

(20) May the arbitrators award multiple or punitive damages?

(21) May the arbitrators award injunctive relief?

(22) Define the currency for payment of the award

(23) Provide for entry of judgment, i.e., award enforcement:
  (a) New York Convention (International)
  (b) Consent to personal jurisdiction of a given court where the arbitration is to be held and enforcement is deemed likely to be necessary

(24) Define review provisions, if any (avoid litigation envy):
  (a) Award is final, binding, and not subject to appeal?

(25) Award subject to interest payments or other penalties from award date?

(26) Confidentiality:
  (a) Proceedings
  (b) Evidence
  (c) Award

(27) When: Consider devices to expedite (avoid unrealistic expectations on time limits)

(28) Can collateral use be made of the arbitration award?

(29) Waiver of sovereign immunity?

(30) Consider specific IP statutory provisions:
  (a) 35 U.S.C. § 294 ("Voluntary Arbitration" of patent disputes; notice of award must go to the U.S. Patent and Trademark Office)
  (b) 35 U.S.C. § 135 ("Arbitration of Interferences"; notice required)
  (c) 17 U.S.C. § 901 (arbitration of royalty for infringement of rights directed to semiconductor chip products)

When considering the topics included in the checklist in preparation for drafting an IP arbitration clause, keep an overriding principle in mind: IP arbitration is in most cases a voluntary alternative to litigation that gives the parties the freedom to choose how they want to resolve their dispute. Arbitration is a flexible process that should be adapted to the particular transaction. Although an ad hoc arbitration agreement should address each of the 30 topics of the checklist in detail, such agreements are relatively rare. More common is a short arbitration clause that adopts the facilities, expertise and rules of a respected arbitral resource. Recommended is that this clause carefully delineate modifications to the arbitration rules to meet the particular needs of the transaction and desires of the parties.