

Using ADR to Resolve IP and Licensing Disputes

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Agenda

- Arbitration
- Source of Authority
- Scope of Authority
- Benefits
- Arbitration Provision
- Selected Rules
- Arbitration Statistics
- IP Issues

Arbitration

- Negotiation to resolve differences conducted by some impartial party.
- The act of deciding as an arbiter; giving authoritative judgment, *e.g.*, “they submitted their disagreement to arbitration.”
- Process by which a third party, whose jurisdiction rests on an agreement between the disputing parties, resolves a legal dispute by making an enforceable decision.

Arbitration – “Source of Authority”

- Agreement between the parties
 - Pre-dispute agreement
 - Post-dispute agreement
- Statutes

Arbitration – “Scope of Authority”

- Agreement between the parties
- Statutes
- Rules of the arbitration organization
 - AAA (including AAA’s “Supplementary Rules for the Resolution of Patent Disputes”)
 - ICC
 - Others
- Case law

Arbitration – Benefits

- Finality of decision
 - Can be enforced by a court
 - Can be overturned only if:
 - Award procured by corruption, fraud or undue means;
 - Evident partiality or corruption in the arbitrators;
 - Arbitrators were guilty of misconduct
 - Refusing to postpone hearing, refusing to hear pertinent evidence
 - Arbitrators exceeded their powers or imperfectly executed them in material respects.

Arbitration – The Provision

- An arbitration provision should address:
 - What is the subject matter?
 - Who does it? (qualifications, neutral)
 - When is it done?
 - How is it done?
 - Where is it done?
 - What law applies?
- Provisions will be enforced; make sure they are right.

A “Standard Provision”

- “Any controversy or claim arising out of or relating to this agreement, or the breach thereof, shall be settled by arbitration and any judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.”
 - **Problems**: no rules specified, no arbitrator qualifications specified, no location specified, no law specified.

A Better “Standard Provision”

- “Any controversy or claim arising out of or relating to this agreement, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules (“the Rules”), and any judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.”

The Provision – Other Matters to Consider

- **Mediation**
- **Method of Selection**
 - Arbitrator selection through listing process
 - Can substitute “party-appointed” process (not recommended: cost, delay, more adversarial)
- **Number of Arbitrators**
 - One vs. three (pros/cons)
 - LCCP (Large Complex Case Panel)

The Provision – Other Matters to Consider

- **Arbitrator Qualifications**
 - Retired Judge, CPA, years of experience, etc.
 - Specialized panels
 - Enhanced Neutrals Selection
- **Locale and Timing Provisions**
 - Convenience of parties, witnesses; length of hearing
- **Governing Law**
- **Preliminary Relief**
 - Include AAA Interim Emergency Relief procedures to govern process Special group of arbitrators available to hear and decide interim award within 48 hrs
 - Permitted under AAA Commercial Rules
 - Carve out an agreement allowing parties to proceed directly to court for TRO's or preliminary injunction

The Provision – Other Matters to Consider

- **Discovery**
 - Arbitrator(s) authorized to direct pre-hearing exchange of documents
 - If more pre-hearing discovery desired, determine scope, (i.e., number of depositions, time limits, discovery period, etc.)
- **Reasoned Opinions**
 - Not routinely provided for in domestic cases
 - Can be provided on “large” cases
 - Pros/cons

The Provision – Other Matters to Consider

- **Remedies**
 - Delineates scope of arbitrator authority in award
 - AAA Rules – “Any remedy or relief the arbitrator deems just and equitable.”
 - Punitive damages - exclude?
- **International**
 - Language of the hearing
 - Location of the hearing
 - Number of arbitrators
 - International Centre for Dispute Resolution (ICDR) administers commercial cases world wide via international cooperative agreements

The Provision – Other Matters to Consider

- **Appeal**
 - Usually for bias, refusal to hear legitimate evidence, etc.
 - Can provide for review panel of arbitrators and give time limits and reasons for when an award can be overturned

Hall Street Associates v. Mattel

(US Supreme Court; March 25, 2008)

- An arbitration award enforced under the Federal Arbitration Act can only be overturned on limited grounds and that Act provides “exclusive grounds” for vacatur or modification of an award.
- Parties cannot vary these grounds by using a tailored arbitration provision.

Arbitration – Issues

- Who decides what can be arbitrated? A decidedly open question.
 - Arbitrator
 - Court
- How can this be?

Arbitration – Issues

- Some courts apparently do not consider the parties' agreement, if the agreement specifies the AAA rules or the rules of other organizations.

AAA Rules 7(a) and 7(b)

- Rule 7(a): “The arbitrator shall have the power to rule on his or her own jurisdiction, including any objections with respect to the existence, scope or validity of the arbitration agreement.”
- Rule 7(b): “The arbitrator shall have the power to determine the existence or validity of a contract of which an arbitration clause forms a part.”

The “Who Decides” Issue

- By referencing the AAA Rules, it would seem that the parties have agreed that the arbitrator can decide matters covered by Rules 7 (a) and (b).
- However, some courts believe the issue of arbitrability is to be decided by the courts. Thus, the choice of law in the underlying agreement should be considered for its impact on the arbitrability issue.

The Powers of the Arbitrator

- AAA Rule 43(a): “The arbitrator may grant any remedy or relief which the arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract.”
 - Includes monetary and injunctive relief

The Powers of the Arbitrator

- AAA Rule 43(b): “In addition to a final award, the arbitrator may make other decisions, including interim, interlocutory, or partial rulings, orders, and awards.”
 - Includes preliminary injunctive relief

The Powers of the Arbitrator

- AAA Rules 43(c), 49, 50, 51: The arbitrator can apportion fees, expenses and costs among the parties as he/she determines is appropriate.
- AAA Rule 43(d)(i): The arbitrator can award interest on the award.
- AAA Rule 43(d)(ii): The arbitrator can award attorneys' fees if all the parties have requested such an award or if it is authorized by law or by the arbitration agreement.

Summary – The Powers of the Arbitrator

- Damages
- Specific performance
- Injunction
- Fees, expenses, costs
- Attorneys' fees
- Interest

AAA Intellectual Property Cases – 2006 Statistics

- **Cases Resolved**
 - Median claim amount was \$295,000
 - Average Claim amount was \$4.7 million
 - Counterclaims were filed in 26% of the cases
 - Median Counterclaim amount was \$300,000
 - Average Counterclaim amount was \$1.2 million
- **Break Down Of Claims by Amount**
 - 34% of cases had claims and counterclaims in excess of \$500,000
 - 23% had claims and counterclaims below \$500,000, but above \$75,000
 - 24% had claims and counterclaims below \$75,000

AAA Intellectual Property Cases – 2006 Statistics

- **Mediation**
 - Parties agreed to mediate only 6% of the cases.
 - Mediation typically has a 70-80% settlement rate for commercial disputes.
 - AAA expects the use of mediation to increase as the pool of experienced mediators with IP expertise grows during the next five years.
- **Nature of the Disputes**
 - 94% involved alleged non-performance of licensing agreements.
 - 6% involved alleged infringement of or improper use of a patent or a trademark.

AAA Intellectual Property Cases – 2006 Statistics

- **Filings by Industry**
 - Largest number of cases involved manufacturing, technology and biotechnology firms.
 - Second largest number of cases involved product designers, franchisors or franchisees, individual inventors and patent holders, research universities, entertainment & retail companies.
- **The Arbitration Clause**
 - 99% of the cases utilized customized arbitration provisions.
 - Issues covered included hearing locale, injunctive relief, and discovery limitations.

IP Disputes: Anticipated Resolution Timeframes

- **Litigation**
- Case Evaluation: 1 - 2 months
 - Pretrial Procedures: 12 - 18 months
 - Trial Practice 2 - 3 weeks
 - Appeal Practice 6 - 12 months
- Total time ~ **19 – 33 months**
- Approximately 53% of patent decisions are overturned and remanded.

IP Disputes: 2006 Resolution Timeframes

- **AAA Arbitration**
 - Resolution timeframes are directly related to:
 - The size and complexity of the dispute
 - The number of arbitrators
 - Type of award that is rendered
 - 73% of the cases required no more than 7 days of hearing – many required less.
 - For cases with claims and counterclaims in excess of \$1 million the median time from filing to award was 396 days.

IP Disputes: Anticipated Resolution Costs

- **Litigation (A simple patent case)**

▪ Case Evaluation	-	\$ 75,000 - \$ 100,000
▪ Pleading Phase	-	\$ 15,000 - \$ 20,000
▪ Mediation (Optional)	-	\$ 15,000 - \$ 25,000
▪ Discovery Phase	-	\$450,000 - \$ 525,000
▪ Motion Practice	-	\$125,000 - \$ 200,000
▪ Trial Practice	-	<u>\$325,000 - \$ 400,000</u>
▪ Total Estimated Costs	-	\$1,030,000- \$1,270,000

- Costs in a more complex patent case could be significantly higher than these (by 2X to 5X).
- Approximately 53% of patent decisions are overturned by the Federal Circuit and remanded and this increases the overall cost.

IP Disputes: 2006 Resolution Costs

- **AAA Arbitration**

- AAA administrative fees are based upon the amount of the claim or the counterclaim
 - 24% - Claims/counterclaims < than \$75,000.
Administrative fees = \$950 to \$1,250
 - 23% - Claims/counterclaims > than \$75,000 < 500,000
Administrative fees = \$2,550 to \$6,000
 - 34% - Claims/counterclaims > than \$500,000 < than \$10 M
Administrative fees = \$8,500 to \$14,000
 - 20% - Cases involved non-monetary claims/counterclaims
Administrative fees = \$4,500
 - Median administrative fees for all IP cases were \$4,250

IP Disputes: 2006 Resolution Costs

- **AAA Arbitration**

- Arbitrator compensation is directly related to case size, complexity, number of arbitrators, and arbitrator qualifications.
- One arbitrator served in 68% of the cases in which claims/counterclaims exceeded \$500,000.
- Three arbitrators served on 32% of the cases in which claims/counterclaims exceeded \$500,000.

IP Disputes: 2006 Resolution Outcomes

- **AAA Arbitrators do *NOT* “Split the Baby”**
 - A 2006 study of international commercial cases administered by the AAA’s ICDR revealed that 93% of the cases had awards that were decisively in favor of the claimant or respondent.
 - A similar 2001 study of domestic commercial arbitrations administered by the AAA demonstrated that 75% of the cases had awards clearly in favor of one side. In 16% of the cases the awards fell into either (a) 21% to 40% of the amount in controversy or (b) 61% to 80% of the amount in controversy. However, in only **9%** of the cases did the arbitrators enter an award in the range of 41% to 60% of the amount in controversy.

IP Arbitration Issues

- Nothing unusual about
 - Trademark
 - Copyright
 - Trade Secret
 - Unfair competition

Patent Arbitration Issues

- 35 U.S.C. § 294 – governs voluntary patent arbitration

Patent Arbitration Issues

- 35 U.S.C. § 294(b): “In any such arbitration proceeding, the defenses provided for under section 282 [non-infringement, invalidity, and unenforceability] ... shall be considered by the arbitrator if raised by any party to the proceeding.”

Patent Arbitration Issues

- 35 U.S.C. § 294(c): “An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person.”
 - Collateral estoppel issues in subsequent litigation as related to the patent owner only?

Patent Arbitration Issues

- 35 U.S.C. § 294(d): “When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director [of the Patent Office].”

Patent Arbitration

- Essentially, a patent arbitration can be a full-blown infringement suit, with all the proofs, defenses, remedies and damages available.
 - Consider limiting the issues through the arbitration clause.

Detriments?

- Because the arbitrator's decision cannot easily be overturned, companies may be less inclined to use arbitration of patent disputes, given the reversal rate of the Federal Circuit.
- This must be weighed against the relative speed of an arbitration and the relative lower cost.
- If finality is the ultimate goal, then arbitration can provide that outcome.

Summary

- Arbitration requires an agreement.
 - At the time the clause is included, the parties are relatively cooperative.
- Arbitration produces finality.
- Overturned only in limited circumstances.
- Arbitration provides a knowledgeable decision maker.
 - Technical and legal training
- Arbitration can provide a private process, subject to the PTO rules.

Conclusion

- Questions?
- Comments?