AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION®

ARBITRATING TECHNOLOGY DISPUTES

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- How do Technology Disputes End Up Being Arbitrated
  - Pre-Dispute Agreements
  - Post-Dispute Agreements
- Pre-Dispute Agreements Containing Arbitration Clauses
  - Parties contract for arbitration to enhance privacy or reduce risk
  - Can protect licensing programs
- Post-Dispute Arbitration Agreements
  - Worth consideration in business-to-business disputes
  - Can save time and money

➢ Types of Intellectual Property Disputes

- Intellectual Property Disputes (rights granted by a government)
  - Patent
  - Copyrights
  - Other IP (maskworks, design models)
  - Trademarks

- Intellectual Property Disputes (arising from common Law or statutory rights)
  - Trade Secret claims
  - Know-How
  - Contractual obligations

INTELLECTUAL PROPERTY DISPUTES (CONTINUED)

- Arbitration of Common Law Derived IP Rights is Similar to Other Arbitration

- Arbitration of Government Issued Intellectual Property Can Present Special Complications
  - Patent Example
    - A patent is a right to exclude others from making, using or selling an apparatus or using a method defined by a specific claim issued to the patent holder by a government
    - Patents are specific to the countries that issue them
    - To be valid, a patent must claim patentable subject matter that is new and non-obvious
    - A patent license may include an arbitration clause. Disputes might be about economics but also may be about the technical issues of whether a product or process infringes a claim or whether the licensed patent is valid
    - Patent arbitration often requires inquiry into national patent law of the country that issued the patent

PATENT ARBITRATION

- Arbitration is private:
  - No public access
  - No access by competitors

- Any dispute involving a US patent can be arbitrated
  - Only private rights are affected. Public rights are not. (35 USC § 294)

- PTAB inter partes review processes are certainly useful but carry risks:
  - Public invalidation can destroy a licensing campaign by invalidating third party patent licenses.
  - In multi-claim PTAB proceedings, added complexity and cost will likely result. (*SAS Institute, Inc. v. Iancu* 584 US __, 138 S. Ct. 1348 (US Sup Ct. April 24, 2018))
  - An arbitration proceeding can be configured to mimic a PTAB inter partes review but with no impact on third-party licensees and through a simpler, lower cost proceeding than through the PTAB
  - PTAB jurisdiction is limited to certain prior-art related validity issues under 35 USC §§ 102, 103) and IPR cannot address validity concerns, including patentable subject matter issues (35 USC § 101), indefiniteness or enablement (35 USC § 112)

PATENT ARBITRATION (CONTINUED)

- Arbitration of patent validity
  - Previously, whether patent validity was arbitrable was in dispute
  - Congress settled the issue with a statute (35 U.S.C.§ 294)
  - 35 U.S.C § 294 provides that patent validity may be arbitrated on the same terms as other contracts
  - Any finding of invalidity is only binding on the parties to the arbitration
  - Note that some countries have restrictions on the arbitration of patent validity (for example, some countries hold that validity can only be determined by the national patent office)

- Arbitration can substantially reduce complexity where multiple jurisdictions are involved
  - No need for court proceedings in all the countries in which there are patents
  - One award can resolve the parties' dispute

OTHER INTELLECTUAL PROPERTY ARBITRATION

- Copyright and Trademark Disputes
  - Copyright disputes can often raise technology issues
    - Software and firmware are protected by copyright
    - Music distribution is no longer just legally complicated but is also technically complicated
  - Trademark disputes are less likely to raise technology issues but arise in technical fields
    - UDRP Arbitration determines domain name ownership disputes

- Trade Secret Disputes
  - Trade Secret disputes are very well suited to arbitration
  - Arbitration helps keep the secret secret – very difficult in open court
  - Trade Secret disputes often involve contractual claims

ARBITRATING OTHER TECHNOLOGY DISPUTES

- Technology Disputes Are Not Limited to IP:
  - Software Development Agreements
  - IT Outsourcing Agreements
  - Agreements Raising Data Security Issues
  - Agreements Raising Product Quality Issues
  - Agreements Raising Process Integrity Issues
  - Disputes Over Conformity to Contractual Specifications

- All of the above lead to complex technological issues in dispute that are well suited to arbitration

GOAL: **FIT THE PROCESS TO THE FUSS**

How arbitration can accomplish this:

- Flexibility
  - Arbitration process can and should be molded to fit the characteristics of the dispute and needs of the parties; no more, no less
  - Process starts as a “blank sheet” waiting for the parties and tribunal to configure it
  - AAA/ICDR Rules are quite simple and short, unlike FRCP which, being designed as “one size fits all”, are cumbersome and complex and made even more so through local court and judge-specific rules

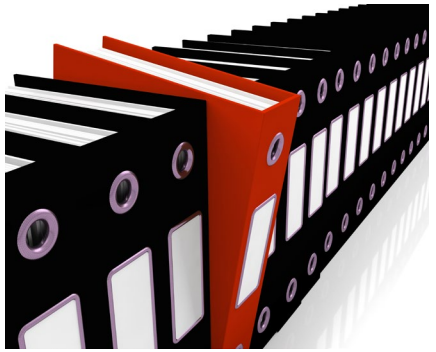
FIT THE PROCESS TO THE FUSS (continued)

- Party autonomy – parties can configure the process any way they want as long as it provides mutual due process
  - You can “Have it your way”!

- Discovery
  - Highest cost driver in litigation, particularly where e-discovery occurs
  - Arbitrator controls discovery, parties decide on its breadth
    - Limit discovery to that minimally needed (e.g. focused document exchange, no or limited number of depositions)
    - If a party needs more discovery, it can request it from tribunal; to disincentivize such requests, tribunal can state its intention to allocate attendant costs to requesting party

FIT THE PROCESS TO THE FUSS (continued)

- Motions
  - Motions have a place, but must be judiciously, strategically and timely used to effectuate cost- and time-savings
  - Tribunal can prevent filing and expense of futile motions by requiring moving party to first request leave to file a motion and justify the motion
  - Certain motions, e.g., bifurcation and partial summary judgment, if granted by tribunal, can eliminate or dispose of particular issues early or defer them (possibly to when they become moot)
  - Tribunal's ruling on these motions may provide inflection point for parties to initiate or re-convene settlement discussions, or enhance likelihood of future settlement



FIT THE PROCESS TO THE FUSS (continued)

- Appeals, Finality
  - Appellate arbitration processes exist and have been in effect for several years, but are rarely used
    (AAA/ICDR Optional Appellate Arbitration Rules eff. 11/1/2013)
  - First award is not viewed for purposes of FAA as final while it is under appeal
  - Finality of arbitration awards eliminates significant possibility in patent litigation of CAFC de novo reversal of district court rulings of “claim construction” and inherent wasted cost and time in re-litigating it
  - Parties in arbitration can agree to use predefined claim construction, such as prior ruling issued by US DC, to eliminate need for tribunal or appellate tribunal to consider issue

FIT THE PROCESS TO THE FUSS (continued)

- Tribunal
  - Parties select their arbitrator(s), not randomly assigned as in US DC
  - Parties set forth qualifications they seek, form pool of candidates meeting those qualifications and select ones best suited, including through screening questions and conducting interviews
  - If parties want tribunal to conform to legal norms, select experienced lawyers/judges

- Selection of proper counsel
  - Parties should select counsel well-versed in arbitration
  - Such counsel know what to expect, what is expected of them, what they need to do and what the tribunal is likely to do
  - With experienced counsel, arbitration often runs more smoothly and faster than otherwise

- Time
  - Best way to gain process efficiency
  - With parties' agreement, limit the time each side has to present its case at the hearing; the less time that exists, the less work can be done and less the cost – but be sensitive to each party's needs
  - Knowing short time limits at inception of proceeding forces counsel to sharply focus their efforts on core issue(s) in contention excluding all else – hence, letting time "work for you, not against you"

FIT THE PROCESS TO THE FUSS (continued)

- Litigation can destroy ongoing relationships – arbitration can protect them
  - Arbitration can be particularly helpful in technology contracts in which the parties work together on a complex project
    - Outsourcing, Software Development, Engineering Contracts
  - The goal in such contracts is to keep the project going and to make sure the business process works
  - There are often detailed and specific milestones and performance requirements
  - Parties can argue over scope of responsibility

- Consider using early intervention techniques in these types of contracts to resolve disputes while they are small
  - Engage a dispute board
  - Provide for expert determination of appropriate issues

INTERNATIONAL ASPECTS

For international disputes, arbitration is far more *advantageous* than national litigation:

- Worldwide enforcement of award through NY Convention (now approx. 160 contracting states)
  - Much easier and more certainty in enforcing arbitral award through the convention than enforcing judicial award through comity
- Neutral forum with party-selected arbitrators
  - Arbitrators are independent of parties, their home governments and national courts
- Parties use substantive law of chosen jurisdiction + institutional procedural rules to assure that rule of law is followed and due process is accorded, and process is custom-fit and efficient
- Circumvents national court delays
- Eliminates need for and uncertainty resulting from parallel proceedings in multiple jurisdictions

ARBITRATION SHOULD BE USED MORE OFTEN & BETTER THAN IT IS IN TECHNOLOGY DISPUTES

"The theoretical advantages of arbitration over court adjudication are manifold ... .
These theoretical advantages [however] are not always fully realized." Frank Sander

Even when using arbitration, patent disputants routinely settle for a "litigation-like" process. Why?

- They gave no forethought either at contractual formation or post-dispute to any process-enhancing techniques or reach any agreement on their use
  - Ignorance of parties and their counsel regarding arbitration: they just don't know very much!
  - Inexperience
  - "Old habits die hard" -- outside counsel's marked tendency to rely on and carry over their core competencies and focused career experiences in litigation to arbitration
  - Counsel's, parties' and/or industry's poor prior experience with arbitration
    - Long-held institutionalized organizational / industry bias against arbitration, though that's finally diminishing

<u>Disputants continue to deny themselves substantial time and cost efficiencies arbitration can provide</u>.

Just Do It!

Thoughtfully but deliberately "Fit the process to the fuss" to employ the flexibility arbitration offers and gain the efficiencies it can provide.

QUESTIONS

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