Arbitrating the Patent Case Part I: *Should our contract provide for arbitration and of what sort?*

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Arbitration can provide significant advantages for patent disputes. As most patent litigation counsel know, patent cases are among the most expensive cases to litigate. This is so for a number of reasons. 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.

Fitting the cost to the dispute

Of course, not all disputes can bear the kind of expense that is often involved in patent cases. One way to avoid some of this expense may be to provide for arbitration of such disputes. 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. If the other party wants to arbitrate, the thinking often goes, then that must be against my interest. Thus, the patent disputes arbitrated are usually those that arise out of some sort of earlier contractual arrangement. 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 agreement? Like all issues in law, it seems, the answer is "it depends." Most parties who would rather litigate then arbitrate feel that way because they like the availability of exhaustive discovery and the prospect of full appellate review. Typically, discovery in arbitration is more limited. 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 them!

On the other hand, full discovery is expensive and not always worth it. And the new American Arbitration Association Commercial Rules allow the parties to agree in their contract to appellate arbitral review. In fact, it is likely that many disputes that arise from the kinds of contract likely to have arbitration clauses in them don't have enough at

stake to justify the sort of "gold standard" litigation that might be involved between competitors fighting over patent issues in a typical non-contract-based dispute.

Let's assume the parties decide arbitration is a good idea. They, of course, don't really foresee any disputes happening, but agree arbitration is the way to go to solve them if they do. There still are quite a few more decisions to make.

Administered or not?

First, you will have to choose between administered and non-administered arbitration. For me, this is an easy decision. Administering your case through an arbitration organization, like the American Arbitration Association, 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. In fact, the AAA has developed a set of supplementary rules for patent cases;

(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, non-administered 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.

Access to a list of well-qualified arbitrators is often very valuable. AAA, for example, requires its arbitrators to take training courses and continuing education regarding arbitration law and practice. In addition, panelists are vetted and chosen based on demonstrated competence within their subject areas of expertise and ability to manage an arbitration. Arbitrators who have proven not to be effective can be eliminated from the organization's panels.

Equally 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 whether an arbitrator is impartial. Of course, 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. If you have to approach a court with motion practice to iron those disputes out, you may well lose the some of the

cost advantage of arbitration altogether. After all, you were hoping to avoid expensive court battles when you chose arbitration. Administered arbitration avoids that by having an administrator make its own determination of impartiality.

Once you have determined whether or not to have an administered arbitration, you are onto determining other aspects of the arbitration, which we will take up in the next part of this series of articles.