U.S. Patent Disputes: Choosing To Arbitrate

Alex Chachkes

SETTY CHACHKES PLLC

1. PROS AND CONS OF PATENT LITIGATION
2. PROS AND CONS OF PATENT ARBITRATION
3. WHO DECIDES WHETHER TO ARBITRATE OR LITIGATE?
4. WHEN MUST PATENT DISPUTES BE ARBITRATED?
5. CONSIDERATIONS IN DRAFTING A PATENT ARBITRATION CLAUSE

1. PROS AND CONS OF PATENT LITIGATION
2. PROS AND CONS OF PATENT ARBITRATION
3. WHO DECIDES WHETHER TO ARBITRATE OR LITIGATE?
4. WHEN MUST PATENT DISPUTES BE ARBITRATED?
5. CONSIDERATIONS IN DRAFTING A PATENT ARBITRATION CLAUSE

- Robust discovery
- Probably more robust patent rules
  - The tribunal may resist patent-specific procedures, such as claim construction, that many patent lawyers believe are appropriate and necessary.
- Better for party with better “narrative”
- Better for more domestic party
- Potentially more “correct” result
  - Better appeal options
  - Arbitrators may have no knowledge of patent law

1. PROS AND CONS OF PATENT LITIGATION
2. PROS AND CONS OF PATENT ARBITRATION
3. WHO DECIDES WHETHER TO ARBITRATE OR LITIGATE?
4. WHEN MUST PATENT DISPUTES BE ARBITRATED?
5. CONSIDERATIONS IN DRAFTING A PATENT ARBITRATION CLAUSE

- No local favoritism
- Potentially quicker resolution
- Confidentiality
- Procedural flexibility
  - Greater potential to phase resolution
  - Select the arbitrators (and possibly patent expert)
  - Select governing procedural and substantive law
  - Agree on procedures for interim relief
  - Select seat of, and language of, arbitration
- Less expensive
  - Limited document discovery, no depositions
  - Possibly specify type and number of submissions

1. PROS AND CONS OF PATENT LITIGATION
2. PROS AND CONS OF PATENT ARBITRATION
3. WHO DECIDES WHETHER TO ARBITRATE OR LITIGATE?
4. WHEN MUST PATENT DISPUTES BE ARBITRATED?
5. CONSIDERATIONS IN DRAFTING A PATENT ARBITRATION CLAUSE

Issues of arbitrability are questions for a court unless there is “clear and unmistakable evidence” that the parties intended for an arbitrator to decide these issues.

First Options of Chicago, Inc. v. Kaplan, 514 U.S. 938, 944 (1995); *Rent-A-Ctr., West, Inc. v. Jackson*, 130 S. Ct. 2772, 2779 (2010)

Arbitrators generally have jurisdiction to determine whether a particular dispute is arbitrable where the arbitration agreement is "inclusive, categorical, unconditional and unlimited."

Benihana, Inc. v. Benihana of Tokyo, LLC, 784 F.3d 887, 898 (2d Cir. 2015)

Most courts in the U.S. agree that, where the parties incorporate rules of arbitration providing that the arbitrators have the power to rule on their own jurisdiction and on the arbitrability of any claim, this satisfies the "clear and unmistakable evidence" test.

See also AAA Commercial Arbitration or International Arbitration Rules (7-505-1298), ICC Rules of Arbitration (6-502-7911).

1. PROS AND CONS OF PATENT LITIGATION
2. PROS AND CONS OF PATENT ARBITRATION
3. WHO DECIDES WHETHER TO ARBITRATE OR LITIGATE?
4. WHEN MUST PATENT DISPUTES BE ARBITRATED?
5. CONSIDERATIONS IN DRAFTING A PATENT ARBITRATION CLAUSE

Clauses that have been interpreted broadly generally provide for arbitration of "all disputes" or "any controversy" "arising out of or relating to" or "arising under or in connection with" an agreement.

Andrews v. TD Ameritrade Inc., 596 F. App'x 366, 370 (6th Cir. 2014), *Oldroyd v. Elmira Sav. Bank*, FSB, 134 F.3d 72, 76 (2d Cir. 1998)

The Ninth Circuit has narrowly construed clauses covering only disputes "arising hereunder" or "arising out of" the specified agreement.

Mediterranean Enterprises, Inc. v. Ssangyong Corp., 708 F.2d 1458, 1464 (9th Cir. 1983), *Tracer Research Corp. v. Nat'l Envtl. Servs. Co.*, 42 F.3d 1292, 1295 (9th Cir. 1994).

In a patent licensing agreement, a broadly worded arbitration clause:

- Clearly covers contractual claims concerning, for example, whether an agreement was properly terminated or whether a party is in breach of a royalty provision.
- Covers claims of patent infringement concerning the licensed patents and corresponding patent defenses even if it does not explicitly refer to these claims, because infringement claims usually "relate to" or "arise out of" the underlying license agreement.

Deprenyl Animal Health, Inc. v. U. of Toronot Innovations Found., 297 F.3d 1343, 1357-58 (Fed. Cir. 2002); *Bayer CropScience AG v. Dow AgroSciences LLC*, 2012 WL 2878495, at *13 (E.D. Va. July 13, 2012); *Conteyer Multibag Sys. N.V. v. Bradford Co*., 2006 WL 2331174, at *2 (W.D. Mich. Aug. 10, 2006); *Innovative Eng'g Solutions, Inc. v. Misonix, Inc*., 458 F. Supp. 2d 1190, 1195-96 (D. Or. 2006); *Sandata Techs., Inc. v. CareWatch, Inc*., 2006 WL 1172195, at *3 (D. Conn. Apr. 20, 2006)

Thus:

- In *Conteyer*, the court noted that "the patents, alleged to have been infringed… were purportedly licensed to [the licensee] pursuant to the license agreement" and, therefore, "arise out of or are connected" to the license agreement.
- In *Rhone-Poulenc* Federal Circuit has rejected the argument that issues of "the scope, validity, and infringement" of underlying patents do not "arise out of" a license agreement.

Conteyer Multibag Sys. N.V. v. Bradford Co., 2006 WL 2331174, at *2 (W.D. Mich. Aug. 10, 2006); *Rhone-Poulenc Specialties Chimiques v. SCM Corp.*, 769 F.2d 1569, 1572 (Fed. Cir. 1985).

Courts have found that patent infringement claims do not come within the scope of an arbitration clause in a license agreement where the terms clearly exclude these types of claims:

- In *Verinata,* the parties' arbitration agreement stated that it "shall not apply to … disputes relating to the issues of scope, infringement, validity and/or enforceability of any Intellectual Property Rights." The court explained that "[t]he pertinent language of the arbitration provision is unambiguous[.]"
- In *Radware*, the court held that patent infringement claims were not arbitrable, because the License Agreement explicitly stated that it only covered [a specific technology] disclosed and claimed in the '802 Patent," whereas the claim at issue related to a different technology.
- In *Let's Go Aero*, "the conduct at issue concern[ed] patent infringement subsequent to the termination of the License Agreement," and "[t]he parties, in the Settlement Agreement excluded disputes concerning conduct which occurred subsequent to the termination of the License Agreement."

Verinata Health, Inc. v. Ariosa Diagnostics, Inc., 830 F.3d 1335, 1337 (Fed. Cir. 2016); *Radware, Ltd. V. Radware, Inc.*, 2013 WL 6773799, at *3 (N.D. Cal. Dec. 23, 2013); *Let's Go Aero, Inc. v. Cequent Performance Products, Inc.*, 78 F. Supp. 3d 1363, 1378 (D. Col. 2015).

1. PROS AND CONS OF PATENT LITIGATION
2. PROS AND CONS OF PATENT ARBITRATION
3. WHO DECIDES WHETHER TO ARBITRATE OR LITIGATE?
4. WHEN MUST PATENT DISPUTES BE ARBITRATED?
5. CONSIDERATIONS IN DRAFTING A PATENT ARBITRATION CLAUSE

SCOPE

- Whether the parties wish to arbitrate issues of patent infringement and invalidity.
  - If they do, whether to specify procedures that they want implemented when arbitrating those issues.
  - The safest course is to make inclusion and exclusion of issues explicit in the contract language (e.g., yes to disputes relating to the licensed patents, no to related patents and counterclaim patents).
- If the parties foresee corporate affiliates or third-party entities being involved in performing the contract, they should define “parties” as including them.
- The parties should carefully consider how broadly the scope sweeps – whether there are disputes that should be resolved outside of arbitration.
  - Consider the possibility of overlapping issues between arbitration and litigation, which is expensive and inefficient.

PATENT-SPECIFIC RULES

- Consider making explicit the incorporation of patent-specific rules, such as either:
  - The Resolution of Patent Disputes Supplementary Rules of the American Arbitration Association (AAA), which provide for specialized procedures typically seen in patent disputes litigated in U.S. federal court, such as claim construction hearing (*see* AAA Patent Rule 3).
  - The World Intellectual Property Organization (WIPO) Arbitration Rules, which provide for specialized, patent-specific procedures (WIPO Arbitration Rules Articles 51-53), such as:
    - "experiments"
    - Visits of "any site, property, machinery, facility, production line, model, film, material, product or process"
    - A "technical primer setting out the background of the scientific, technical, or other specialized information"
    - "models, drawings or other materials"
- Alternatively, the parties may consider specifying their own patent-specific procedures—e.g., claim construction.

INTERIM MEASURES

- An increasing number of arbitral institutions have provisions for "emergency measures," such as an injunction or an order for an immediate withdrawal of infringing goods from the market, before a tribunal is selected.
- However, if a party resists interim measures ordered by an emergency arbitrator, the prevailing party's only way to enforce that order is by initiating proceedings in a court to confirm the arbitrator's award, which may undermine the purpose of seeking emergency measures.
- Accordingly, given an arbitrator's limited authority to enforce interim measures, parties should ensure that they can access a court for such relief before (or even after) an arbitral tribunal is constituted. Most U.S. courts have held that they have the authority to issue interim relief in aid of arbitration if the parties have consented to that relief, either explicitly or by incorporation institutional arbitration rules that permit resort to nation courts.
- Consider specifying the court for interim relief.
- Consider adding specific contract language specifying that the arbitration clause does not prohibit seeking interim relief in aid of arbitration.

ARBITRATOR SELECTION AND QUALIFICATIONS

- Arbitrator selection in patent cases can be difficult
  - patent cases can present highly complex technical and legal issues
  - arbitration often involves both contract and patent claims
  - indeed, the presence of contract claims may take precedence over patent claims
- For example, consider a contract under Japanese law that licenses U.S. patents. There are very few candidate arbitrators who are expert in both legal regimes.
- Consider a clause that specifies the qualifications of the arbitrators, but not so specifically that most candidates are ruled out.
- Parties may consider agreeing to a set of arbitrator qualifications that apply to some of the disputes (e.g., contract issues), but not others (e.g., patent issues).
  - For example, the clause may specify contract expert(s) for a Phase I decision on all contract issues, and patent expert(s) for a Phase II decision on all patent issues.

CHOICE OF LAW

- Parties should clearly articulate in their agreement which law governs:
  - The contract
  - The patent-related issues, such as infringement and invalidity.
- The ruling in *Deprenyl* suggests what appears to be obvious—that the law of the country that issues a patent governs issues of infringement and invalidity, even if the license agreement is governed by a different law. *Deprenyl Animal Health, Inc. v. University of Toronto Innovations Foundation*, 297 F.3d 1343, 1358 (Fed. Cir. 2002).
- Even if obvious, however, clarifying in the contract language prevents time-consuming (and expensive) disputes over this issue.

SEAT OF ARBITRATION

- Many jurisdictions do not permit arbitration of disputes concerning patent invalidity. For example, invalidity claims are not arbitrable in China.
- In Japan, patents are arbitrable, but awards "declaring a patent utility model, design, or trademark invalid cannot be enforced absent an in validity decision by the Japanese Patent Office." *See* Kenneth R. Adamo, Overview of International Arbitration in the Intellectual Property Context, The Global Business Law Review, vol. 2-7 at 18.
- Consider the implications of agreeing to arbitrate disputes concerning U.S. patents in a jurisdiction that does not permit arbitration of patent disputes. Consider:
  - Whether those laws only prohibit arbitration of those nation's patents
  - Whether those laws prohibit arbitration of any patent dispute, regardless of the patents' origins.

THANK YOU!

Alex Chachkes

alex@sechalaw.com

SETTY CHACHKES PLLC
228 Park Avenue South, Suite 54517
New York, NY 10003