

## Alternative Dispute Resolution For Copyright And Trademark Matters

--- Litigation has historically been the default dispute resolution mechanism for trademark and copyright matters and it is an inexact mechanism, where a judge whose calendar doesn't typically include this intensely specialized area of law must make a judgment call that can determine the fate of an entire company.

As a result, the trend in most practice areas in recent years has been towards using alternative dispute resolution (ADR), more specifically mediation and arbitration.

In intellectual property disputes, the ability to customize rules on discovery, ensure privacy, control the expertise of the authority hearing the case as well as the timing and location of the hearing and many other factors are leading parties to ADR.

In addition to these practical matters, litigation is also far more expensive than ADR—both in absolute dollars and in the time commitment of employees to deal with detailed depositions and discovery. The ability to customize the nature of the resolution forum to the nature of the dispute is the most powerful incentive to use ADR in intellectual property disputes.

Despite these advantages, many corporate legal departments overlook ADR as an option despite the high stakes involved in intellectual property litigation. Fulbright and Jaworski LLP released a survey highlighting litigation trends in October of 2005 (see [www.fulbright.com](http://www.fulbright.com)). They found that intellectual property litigation was the most-cited concern to companies across a range of industries. Energy, manufacturing, technology/communications and retail/wholesale industries reported that their most costly litigation involves intellectual property. Of these industries, the only ones frequently using ADR are those whose primary business is technology/communications.

In 2006, Price Waterhouse Coopers released its "Patent and Trademark Damages Study." The authors identified the impact intellectual property often has on a business' ability to survive. This shift is part of the natural progression of economic development. As the United States and other developed nations shift to more knowledge- and service-based economies, intellectual property has become the primary asset of many businesses.

Popular methods of dispute resolution include mediation and arbitration. Mediation is a non-binding process where a neutral third-party assists the disputing parties in reaching a mutually acceptable resolution. Arbitration, on the other hand, is a binding process where a neutral third-party makes a final

decision after hearing the facts and evidence. Arbitration clauses have for years been staples in licensing agreements involving copyrights and trademarks. Since arbitration is a creature of contract, not many practitioners automatically consider arbitration post-dispute. In recent years, however, post-dispute submissions are on the rise. Mediation as a precursor to arbitration is often cited in agreements pre-dispute and is being used widely post-dispute as well many practitioners report.

## \* Expertise \*

A prime benefit of mediation and/or arbitration in the copyright and trademark area is the ability to select a neutral with subject matter expertise that matches the issues in dispute. This option adds to the overall cost-savings because minimal time is required educating the “judge” on the current law, trade customs or industry norms. This leads to more efficient hearings and a streamlined process whereby parties can get to the heart of the issues. To find the most appropriate arbitrator, the American Arbitration Association (AAA) asks parties to provide detailed information to the administrator, including the specific qualifications they would like to see in the neutral’s experience. The administrator then provides a list from which the parties are encouraged to agree on the appropriate person. In the event they cannot agree, the parties may strike those they do not want to serve and rank the remaining choices.

The AAA maintains both highly select Copyright and Trademark panels. The Copyright Panel consists of approximately 50 neutrals while the Trademark Panel consists of approximately 60 neutrals. These neutrals are well-known lawyers that are available worldwide to hear disputes and have consistently practiced in the copyright or trademark area for at least 10 years. While there are a handful of non-lawyers, arbitrators come from a broad range of industries and have both experience within law firms and in-house as corporate counsel. In addition to having copyright or trademark experience, attorneys can choose neutrals with litigation, licensing, prosecution, or counseling expertise as well as specific industry experience (i.e. theatre, music, cable, sports, publishing, etc).

## \* Confidentiality \*

Another possible reason to consider ADR over litigation is confidentiality. The ability to prevent the media from accessing public court dockets can often preserve the reputation of a company as well as the integrity of its intellectual property. Mediation and arbitration are processes whereby the neutral and administrator are bound by confidentiality. Although the parties are not similarly bound, they often enter into a confidentiality agreement since it is much simpler to draft such an agreement between the parties than to seek a protective order through the courts. This option can save considerable time and possibly prevent trade secrets from being inadvertently or deliberately released.

## \* Preserving Relationships \*

Preserving relationships between business partners is another strategic consideration. Mediation is a less formal process and can provide a result more compatible with an ongoing relationship. The nature of mediation is to provide both parties with an opportunity to be heard and fashion their own remedy with the assistance of a neutral third-party, the mediator. Maintaining control over the outcome is a key advantage of mediation. Counsel that must report to senior management or the Board of Directors welcome this benefit. While arbitration can be more predictable than litigation when it involves a well-drafted customized clause or agreement, the adversarial nature of the process does make it more difficult to preserve relationships.

## \* Is Arbitration Less Expensive Than Litigation? \*

Depending on the survey group, arbitration has been praised as cost-effective and condemned as just as complex as litigation. It is not the process of arbitration itself that delivers inherent time- and cost-savings but rather how parties structure and apply that process.

When advocates do not understand the differences between arbitration and litigation, the arbitration clause is poorly drafted, or the primary interest in choosing this method is for reasons other than time- and cost-savings, then the complexity and challenge of reaching a resolution will begin to resemble litigation.

However, it is much more common for attorneys using ADR procedures to prepare for disputes and make sure the agreements are structured in a way to avoid these pitfalls. The majority of intellectual property matters filed with the AAA where the dispute was valued under \$1,000,000 were completed from filing to award on average within nine months. In disputes valued over \$1,000,000, the average time from filing to award was 12 months.

Accordingly, due to the fact that most cost in litigation is accrued prior to the actual trial, full discovery similar to that allowed by the Federal Rules of Evidence should not be applied to arbitration. These rules often defeat the purpose of a streamlined, efficient conclusion to the matter. However, if the issue in dispute is at the company's core business strategy, full discovery may be necessary. In these instances, it is possible that confidentiality will trump the need for a quicker and more cost effective resolution. When this is the case, counsel should add which rules they wish to apply to their arbitration clause or agree to the use of such rules later. If the parties are concerned about saving time and money, they should limit discovery.

Additionally, if cost is a concern, companies need to remember that appeals often add considerably to the overall cost of litigation. It is believed that the Federal Circuit reportedly reverses more than 50% of cases (see Price Waterhouse Coopers study). If the parties have chosen an arbitrator with the subject matter expertise related to the dispute, there is less chance the matter will result in a poor decision.

For the skeptical advocate who is truly concerned about the finality of arbitration, an arbitral appeal might be worthy of consideration. An arbitral appeal should be drafted into the contract, pre-dispute or negotiated post-dispute but always prior to the start of the arbitration proceeding. The appeal should be limited in scope and clearly outline the procedures to follow. Since this will add time and cost to the overall proceeding, it is imperative that this mechanism be invoked only when the issue justifies this process.

#### \* Interim Remedies \*

Many intellectual property practitioners do not use ADR because they believe that relief is not available. The AAA has various sets of rules including provisions for interim awards. The parties can then take these awards to court for enforcement. This particular authority of the arbitrator will help in circumstances where the relief sought is not immediate in nature.

Where the parties seek immediate relief for example, in the form of a temporary restraining order, the interim relief rule will not help unless one can wait until an arbitrator is appointed through the normal course of the process. Where immediate relief is necessary, the parties should consider adding the “Optional Rules for Emergency Measures of Protection” to the contract. These rules provide that once a matter is filed, the AAA will appoint the arbitrator within one business day. As soon as the arbitrator is appointed, but no later than two business days, he or she will establish a schedule to hear the parties.

The AAA administered almost 300 hundred cases related to intellectual property worldwide in 2005. The most common issues raised in arbitration include infringement, trade secrets, unfair competition, non-performance, misappropriation and failure to pay. ADR clauses are generally found in royalty contracts, transfer agreements, asset purchase agreements and license agreements. The types of parties most often in arbitration include those from the entertainment and pharmaceuticals industries.

#### \* The Silver Bullet – Customization \*

Almost all clauses contained in intellectual property agreements are customized to meet the needs of the parties. In addition, on average, they mention the venue, request a reasoned award, and call for one arbitrator to serve as opposed to a panel of three.

The detail to which parties can customize arbitration agreements is a major advantage over the one-size-fits-all system of court. Arbitrators are often reluctant to grant motions to dismiss or those for summary judgment for fear of vacatur of the award. In order to obtain the same result without using litigation, it is advisable to specifically grant the arbitrator authority to grant such motions. To take it a step further, setting out the standard for review is also beneficial. Setting attorneys’ fees is also commonplace. Allowing or disallowing the arbitrator to award such fees is another issue to consider.

In today's global economy, the concern about intellectual property when dealing with international partners raises a host of new concerns for in-house counsel. Many countries lack a tradition of protecting intellectual property and counsel and parties must build this protection into their contracts through ADR when dealing with troublesome jurisdictions. The AAA has established cooperative agreements with arbitral institutions in 39 countries, which enables clients to conduct multi-country proceedings anywhere in the world with a consistent set of rules. In these instances, it is especially important to create agreements that meet the needs of the parties and to provide significant detail such as the language of the proceedings, the nationality of the arbitrators, etc.

Companies that take consideration of alternative dispute resolution methods, draft customized clauses and understand the host of options available will be able to align overall strategic plans with the preservation of intellectual property assets.

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