

Arbitration Clauses in Patent License Agreements

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This Practice Note identifies factors that parties should consider when drafting an arbitration clause in a patent license agreement. It addresses, among other things, whether to arbitrate or litigate **patent** disputes, key considerations in conducting arbitration proceedings, including whether or not to have a claim construction hearing, and the arbitrators' qualifications.

SCOPE OF THIS NOTE

Preparing an **arbitration** clause is one of the most important parts of planning an arbitration. Poorly drafted and ambiguously worded arbitration agreements generally result in costly and time-consuming litigation that may have been avoided by using precise language.

This Note covers, among other things:

- Considerations in deciding whether to arbitrate or litigate patent disputes; and
- If the parties choose to arbitrate patent disputes, how the arbitration clause should be drafted and how the arbitration proceedings should be constructed.
- The qualifications of the arbitrators chosen to adjudicate patent disputes.

In a global economy where patents are the lifeblood of some of the world's biggest companies and cross-border intellectual property (IP) transactions are ubiquitous, the way parties to a transaction decide to resolve patent disputes can have enormous commercial consequences. Among other things, the parties must decide whether patent disputes will be litigated or arbitrated, and if arbitrated, how to structure the proceedings.

Parties frequently agree to arbitrate disputes arising out of their patent license agreements, but they often do not give sufficient

thought to the scope of the clause and the nature of the arbitration proceedings that may arise from a dispute. Poorly drafted arbitration agreements can result in costly, time-consuming, and unnecessary litigation, as well as arbitration proceedings that do not conform to the parties' desires and expectations.

This Practice Note also:

- Explores the statutory basis for the arbitration of disputes involving US patents (see Arbitration of Patent Disputes in the US: Statutory Basis and Background).
- Provides an overview of key case law on the interpretation of arbitration clauses in IP license agreements (see US Case Law on the Arbitrability of Patent Disputes).
- Offers strategic guidance for negotiating and drafting arbitration and disputes clauses in patent license agreements, including with respect to:
 - scope of the arbitration clause;
 - applicable arbitration rules;
 - choice of law;
 - seat of arbitration; and
 - optional appellate arbitration procedures.

(See Drafting Disputes Clauses in Patent License Agreements.)

For sample patent license agreements and related drafting notes, see Standard Documents, Patent License Agreement (Pro-Licensee) ([5-507-1693](#)) and Patent and Know-how License Agreement (Pro-Licensor) ([3-509-6005](#)). For an overview of patent law, see Practice Note, Patent: Overview ([8-509-4160](#)).

ARBITRATION OF PATENT DISPUTES IN THE US: STATUTORY BASIS AND BACKGROUND

Historically, many US courts were hostile towards the arbitration of patent disputes (see, for example, *Babcock & Wilcox Co. v. Pub. Serv. Co. of Indiana*, 22 Fed. R. Serv. 2d 340 (S.D. Ind. 1976)), resulting in confusion about whether patent disputes were arbitrable. To alleviate this confusion, Congress passed Section 294 of the Patent Act (35 U.S.C. § 294) in 1982. Section 294 expressly provides that disputes concerning US patents are arbitrable. This Note addresses

agreements providing for arbitration in the US, unless otherwise indicated, although Section 294 is not limited to domestic arbitration (see *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1357 (Fed. Cir. 2002)).

Section 294 has five parts:

- Subsection (a) provides that:
 - a contract may contain a provision requiring arbitration of any dispute concerning patent validity or infringement; or
 - in the absence of a preexisting agreement, the parties may agree in writing to settle an existing patent validity or infringement dispute (35 U.S.C. § 294(a)); and
 - any agreement to arbitrate patent disputes is “valid, irrevocable and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.”

Courts have interpreted this subsection to include disputes involving patent inventorship, in addition to disputes concerning patent validity and infringement (see, for example, *Concat LP v. Unilever, PLC*, 350 F. Supp. 2d 796, 808 (N.D. Cal. 2004) and *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1357 (Fed. Cir. 2002)).

- Subsection (b) provides that patent arbitrations, patent arbitration awards, and the confirmation of awards are subject to the Federal Arbitration Act (FAA) (9 U.S.C. §§ 1-16, 201-208, 301-307). This necessarily includes the bases for vacating an award, which are set out in 9 U.S.C. § 10. (See *Microchip Tech. Inc. v. US Philips Corp.*, 367 F.3d 1350, 1354 (Fed. Cir. 2004)). For more information on the FAA, see Practice Note, Understanding the Federal Arbitration Act ([0-500-9284](#)).

Notably, Section 294(b) also uniquely requires an arbitrator to consider any patent defenses in Section 282, which includes the defenses of non-infringement and invalidity, if raised by any party to the proceeding.

- Subsection (c) provides that:
 - an arbitrator’s award is final and binding only between the parties to the arbitration; and
 - if the parties agree, a court may modify an arbitral award if a court later determines that the patent is invalid or unenforceable.
- Subsection (d) requires a patentee to give notice of an arbitration award and a copy to the Director of the US Patent and Trademark Office (USPTO), which must then enter that information in the patent’s prosecution file.
- Subsection (e) states that an arbitration award is unenforceable until the USPTO Director receives the notice.

Regarding the somewhat unusual provision in 294(c) that the parties may agree to modify an arbitral award based on the later invalidation of a patent at issue, counsel must consider the well-developed principle that a final court judgment invalidating a patent does not permit the infringer to vacate an earlier final judgment requiring it to pay lump sum royalties for past or future infringement (see *Fresenius USA, Inc. v. Baxter International, Inc.*, 721 F.3d 1330, 1340 (Fed. Cir. 2013)). There is no legislative history and no published decisions interpreting or applying this provision of 294(c). However, at least one

commentator notes that it addresses the situation where a confirmed arbitral award provides for the payment of running royalties on a patent that a court later determines to be invalid (see Philip J. May, Jr., *Arbitration of United States Patent Validity and Infringement Under 35 USC § 294*, 17 Geo Wash. J. Int’l L. & Econ. 637, 647 (1982-1983)). Another commentator notes that any modification only operates prospectively, suggesting that if an arbitration award is modified in light of a later invalidated patent, the modification only affects future royalty obligations, not royalties already paid (see Harry F. Manbeck, Jr., *Voluntary Arbitration of Patent Disputes – The Background to 35 USC 294*, 11 APLA Q. J. 268, 272 (1983)).

The preclusive effect of an arbitration award in later disputes arising out of the same patent is unsettled (see Practice Note, *The Preclusive Effect of Arbitration Awards in the US* ([1-583-9465](#))).

US CASE LAW CONCERNING THE ARBITRABILITY OF PATENT DISPUTES

WHO DECIDES ARBITRABILITY: COURTS OR ARBITRATORS?

For any practitioner drafting arbitration clauses in patent license agreements, it is crucial to understand:

- How courts have determined interpreted arbitration clauses in patent license agreements.
- Whether a court or an arbitrator decides in the first instance whether a patent claim is covered by an arbitration clause.

The general rule in the US is that issues of arbitrability (that is, the person deciding whether a claim is arbitrable) are questions for a court unless there is “clear and unmistakable evidence” that the parties intended for an arbitrator to decide these issues (see *First Options of Chicago, Inc. v. Kaplan*, 514 US 938, 944 (1995); *Rent-A-Ctr., West, Inc. v. Jackson*, 130 S. Ct. 2772, 2779 (2010)).

Where the parties have expressly agreed to arbitrate issues of arbitrability, however, courts generally honor the parties’ wishes (see, for example, *Benihana, Inc. v. Benihana of Tokyo, LLC*, 784 F.3d 887, 898 (2d Cir. 2015); *HSGCHG Investments, LLC v. Time Warner Cable Enterprises LLC*, 2016 WL 3595504, at *2 (D.S.C. July 5, 2016); and *Johnson v. Santander Consumer USA Inc.*, 2015 WL 7567483, at *1 (D. Ariz. Nov. 25, 2015)). Accordingly, arbitrators generally have jurisdiction to determine whether a particular dispute is arbitrable where the arbitration agreement is “inclusive, categorical, unconditional and unlimited” (see *Benihana*, 784 F.3d at 898).

In addition, the majority rule in the US is that where the parties incorporate rules of arbitration (AAA Commercial Arbitration or International Arbitration Rules ([7-505-1298](#)) and the ICC Rules of Arbitration ([6-502-7911](#))) 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. A court typically refers all jurisdictional issues to the arbitrator. (See Practice Note, *Jurisdictional Issues in International Arbitration: Key Jurisdictions: US* ([2-382-1325](#)), and Practice Note, *Arbitrability Issues in US Arbitration: Determination by a Court or Arbitrator* ([w-005-0556](#))).

To avoid unnecessary and costly litigation, counsel should consider clarifying in an arbitration agreement whether issues of arbitrability are to be arbitrated.

WHEN DO PATENT CLAIMS FALL WITHIN THE SCOPE OF AN ARBITRATION CLAUSE?

Once the issue of **who** decides arbitrability is settled, the key question is whether the relevant arbitration clause encompasses the claims at issue. Courts and arbitrators alike must consider:

- The “emphatic federal policy in favor of arbitral dispute resolution” (*Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 US 614, 631 (1985)).
- The “presumption of arbitrability” in cases where contracts contain an arbitration agreement (*AT&T Tech. v. Commc’ns Workers of Am.*, 475 US 643, 650 (1986)), which applies with “special force” in the field of international commerce (*AT&T Tech.*, 475 US at 631).

The reach of an arbitration clause obviously depends on the precise wording of the clause. However, 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 (see *Andrews v. TD Ameritrade, Inc.*, 596 F. App’x 366, 370 (6th Cir. 2014) and *Oldroyd v. Elmira Sav. Bank, FSB*, 134 F.3d 72, 76 (2d Cir. 1998)). Therefore, if parties wish to draft a broad clause, they should state that the clause covers disputes “arising out of and relating to” and “in connection with” the specified agreements, as some cases have 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) and *Tracer Research Corp. v. Nat’l Envtl. Servs. Co.*, 42 F.3d 1292, 1295 (9th Cir. 1994)). Although these cases are out of step with current case law (see, for example, *Benihana*, 784 F.3d at 898), they have not been expressly overruled. For additional analysis, see Standard Document, US: Ad Hoc Arbitration Clause: Broad Versus Narrow Clause ([5-519-2015](#)).

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.
- Likely 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 (see *Deprenyl Animal Health, Inc. v. Univ. of Toronto 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); and *Sandata Techs., Inc. v. CareWatch, Inc.*, 2006 WL 1172195, at *3 (D. Conn. Apr. 20, 2006)).

A patent infringement claim “relates to” the “interpretation or performance” of the license agreement and therefore is covered by an arbitration clause, when the allegedly infringing activity is claimed to be in breach of that agreement. For example, in:

- *Conteyer Multibag Systems*, 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 (2006 WL 2331174 at *2).

- *Sandata Technologies, Inc. v. CareWatch, Inc.*, a case involving patent infringement claims, the court held that “[w]hether Sandata was validly assigned MCI’s License Agreement and patent rights, whether CareWatch breached the License Agreement, and whether Sandata validly terminated CareWatch’s rights under the Agreement as a result are clearly matters falling within the scope of the arbitration provision as they directly relate to the operation and interpretation of the License Agreement” (2006 WL 1172195, at *2 (D. Conn. April 20, 2006)).

In fact, the Federal Circuit has explicitly rejected the argument that issues of “the scope, validity, and infringement” of underlying patents do not “arise out of” a license agreement (see *Rhone-Poulenc Specialites Chimiques v. SCM Corp.*, 769 F.2d 1569, 1572 (Fed. Cir. 1985)).

Occasionally, courts have found that patent infringement claims do not come within the scope of an arbitration clause in a license agreement, but only in circumstances where the agreement at issue clearly excluded these types of claims. For example:

- In *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, the parties’ arbitration agreement stated that it “shall not apply to... disputes relating to issues of scope, infringement, validity and/or enforceability of any Intellectual Property Rights” (830 F.3d 1335, 1337 (Fed. Cir. 2016)). The licensor sued for patent infringement and the licensee moved to compel arbitration of its counterclaim seeking a declaratory judgment of non-infringement. The court of appeals upheld the district court decision that the counterclaims were nonarbitrable, explaining that “[t]he pertinent language of the arbitration provision is unambiguous and makes clear that ‘disputes relating to issues of’ patent scope and infringement are not subject to mandatory arbitration” (830 F.3d at 1340).
- In *Radware, Ltd. v. Radware, Inc.*, the court held that patent infringement claims were not arbitrable, but only because the License Agreement explicitly stated that it only covered “‘associative’ or ‘passive’ modes of cookie persistence disclosed and claimed in the ‘802 Patent,’” whereas the claim at issue related to the so-called “insert” mode, which had been clearly carved out of the parties’ agreement (2013 WL 6773799, at *3 (N.D. Cal. Dec. 23, 2013)).
- In *Let’s Go Aero, Inc. v. Cequent Performance Products, Inc.*, “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” (78 F. Supp. 3d 1363, 1378 (D. Col. 2015)). Accordingly, the court held that this claim was therefore “not subject to arbitration.”

DRAFTING DISPUTES CLAUSES IN PATENT LICENSE AGREEMENTS

WHETHER OR NOT TO ARBITRATE PATENT CLAIMS

When negotiating a contract that addresses patent rights, each party must make a business decision concerning the appropriate forum for dispute resolution. Set out below is an overview of the benefits and risk of arbitrating patent disputes that should be considered when making that decision.

The chief benefits of arbitrating patent disputes include:

- Flexibility in:
 - the makeup of the arbitral panel; and
 - the conduct of the proceedings. (See Procedural Flexibility.)
- The potential for:
 - lower costs; and
 - quicker resolution. (See Potential Cost and Time Savings.)
- Confidentiality (see Confidentiality).
- The risks of arbitrating patent disputes include a tribunal that may be ill-prepared for the subject matter, procedures that are not optimal for a patent case, and the lack of traditional appellate options.

BENEFITS OF ARBITRATING PATENT DISPUTES

Procedural Flexibility

If parties choose to arbitrate, they have the opportunity to:

- Select the arbitrators.
- Specify their qualifications in advance.
- Select the governing substantive and procedural law of the case.
- Agree on procedures for interim relief.
- Select the language of the arbitration.
- Choose the place or seat of arbitration (see Practice Note, [Choosing an Arbitral Seat in the US \(1-501-0913\)](#)).

Procedural flexibility is often greatest at the time of contracting. After a dispute arises, there are no guarantees that one's adversary or the tribunal or arbitral institution are likely to agree to conduct the proceeding in any particular way. This is especially important in patent matters because many arbitral institutions do not have patent-specific rules or otherwise mandate that a patent-related dispute be conducted in a particular way.

Potential Cost and Time Savings

The time and expense associated with resolving disputes and the inherent uncertainty of the outcome can have a significant commercial impact on a company's business. This is especially true for intellectual property matters, where research and development activities and time-to-market can be substantially affected or completely undermined by a lengthy dispute. Arbitration can be (but is not always) cheaper and quicker than litigation, especially if it can resolve a dispute that is otherwise likely to require litigating in multiple foreign jurisdictions. A 2013 World Intellectual Property Organization (WIPO) survey found that respondents spent more time and incurred significantly higher costs in court litigation than in arbitration and mediation (see Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions, March 2013).

To ensure an arbitration proceeding provides the desired cost and time savings, parties should consider:

- Agreeing to a sole arbitrator instead of a three-member panel, when appropriate.
- Restricting the scope of discovery.
- Choosing an arbitral institution with lower administrative fees relative to others.
- Specifying the type and number of merits submissions.

Confidentiality

The confidentiality of pleadings, documents, and hearings can be a significant advantage of arbitration, especially with respect to intellectual property matters. Public disclosure of the mere existence of an intellectual property dispute can cause substantial commercial harm to a party. Arbitration proceedings, which are usually private, can provide parties with much-needed confidentiality and relieve parties of the substantial burden of filing motions to seal with a court. Many judges carefully scrutinize motions to seal and some require that every motion to seal be accompanied by a client declaration attesting to the information's sensitivity and clearly stating the consequences of a public filing.

While arbitration is typically confidential, parties should be aware that, under 35 U.S.C. § 294(c), one of the parties must provide notice of the final award, including a copy of the award, to the USPTO. Confidentiality may be compromised if the final award contains confidential or proprietary business information because the USPTO patent prosecution files are available for public inspection. However, the USPTO has at least once accepted redacted awards. The parties may wish to address confidentiality in their arbitration agreement and during the first procedural conference with the arbitral tribunal.

RISKS OF ARBITRATING PATENT DISPUTES

Arbitration carries certain risks that parties do not find in US district court litigation. For example:

- Arbitrators may not be well-versed in patent law or have the experience necessary to adjudicate a highly technical dispute.
- Absent agreement by the parties, the tribunal may not institute patent-specific procedures, such as a claim construction hearing, that many patent lawyers believe are appropriate and necessary in a patent dispute. Many arbitrators, especially international arbitrators, reflexively resist US federal court-style procedures even if those procedures may lead to a more logically organized or expeditious resolution of the dispute.
- There are no generally applicable evidentiary rules in arbitration and there is little opportunity to exclude evidence (particularly expert testimony) that falls short of minimum standards of reliability.
- Unless the parties otherwise agree to appellate arbitration procedures (where they are available), there is no "appeal" of an arbitral award in the conventional sense of appealing a trial court decision to an appellate court. The grounds for vacating an arbitral award are limited (see Practice Note: [Enforcing Arbitration Awards in the US: Vacating Awards \(9-500-4550\)](#)).

Usually, however, these risks can be addressed with a carefully crafted arbitration provision. For example, the parties may agree to provisions in their arbitration agreement that:

- Address arbitrators' qualifications to ensure the appointment of arbitrators with the appropriate background and experience (see [Arbitrator Qualifications](#)).
- Adopt patent-specific arbitration rules (see [Patent-Specific Arbitration Rules](#)).
- Adopt rules for appeals by appellate arbitrators (see [Appeal of an Adverse Ruling](#)).

PROVISIONS TO CONSIDER WHEN DRAFTING THE ARBITRATION CLAUSE

There is no one-size-fits-all arbitration clause. There are, however, key elements that counsel should carefully consider in any patent license negotiation.

Scope of the Arbitration Clause

The scope of the provision (that is, **who** must arbitrate and **what types** of disputes must be arbitrated) is critical. For example:

- If the parties foresee corporate affiliates or third-party entities being involved in performing the contract, they should define “parties” as including those affiliates or other third parties.
- The parties must consider whether they wish all disputes that may arise between them to be arbitrated. The majority of arbitration clauses are drafted broadly and generally without regard to particular types of disputes. However, counsel should carefully consider how broadly an arbitration clause may sweep.

Indeed, it is important to understand the true scope of an arbitration clause at the time of licensing if the parties agree to arbitrate all disputes “arising out of or relating to” the agreement. In a common dispute scenario, the licensor may accuse the licensee of acting beyond the license’s scope and either terminate the agreement or assert a claim for patent infringement. The licensee typically asserts a license defense and may argue that, even if they do not have a license, the patents are invalid. As explained above, under a broad arbitration clause, the infringement claim, the license defense, and the invalidity defense are all subject to arbitration (see, for example, *Polymer Tech. Sys., Inc. v. Roche Diagnostics Corp.*, 2010 WL 3782173, at *2 (S.D. Ind. Sept. 20, 2010)). Parties should therefore consider:

- Whether they wish to arbitrate issues of patent infringement and invalidity.
- If they do want to arbitrate those issues, whether to specify procedures that they want implemented when arbitrating those issues.

Parties that wish to arbitrate issues of patent infringement and invalidity concerning the licensed patents may simply agree to a broad arbitration clause mandating arbitration for all disputes “arising out of or relating to this Agreement.” However, the better practice is to explicitly state that the parties agree to arbitrate these types of disputes. For example:

“Any controversy or claim arising out of or related to this contract, or breach thereof, including any dispute relating to patent validity or infringement, shall be settled by arbitration administered by the American Arbitration Association under its Supplementary Rules for the Resolution of Patent Disputes and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.”

(See American Arbitration Association Supplementary Rules for the Resolution of Patent Disputes: Standard Arbitration Clause.)

If the parties choose to carve out specific types of disputes, including claims of patent infringement or validity, the limitation must be explicit and carefully worded. For example, in *Verinata Health, Incorporated v. Ariosa Diagnostics, Inc.*, the parties’ agreement stated that the arbitration clause “shall not apply to...disputes relating to

issues of scope, infringement, validity and/or enforceability of any Intellectual Property Rights” (830 F.3d at 1337). Notwithstanding that language, the patentee still tried to compel arbitration of its counterclaim for non-infringement when sued for patent infringement in federal court. The clause required a court battle to determine its scope, which ended up costing the parties time and expense. A better clause specifies whether these types of claims are non-arbitrable in **any** context (that is, whether raised as a claim, a defense, or a counterclaim or only when affirmatively raised by a claimant).

Parties should also be aware that carving out patent infringement and validity claims, while simultaneously agreeing to submit contract claims to arbitration, may result in parallel proceedings in arbitration and federal court. Parallel proceedings can be inefficient, costly, and can raise the risk of inconsistent results on important factual and legal issues. They also raise several practical difficulties that the parties may wish to address at the contracting stage. For example, the following fact pattern is common:

- A patent licensor terminates a license agreement claiming that the licensee breached the agreement and files an infringement claim against the terminated licensee in federal court.
- The licensee believes the license was improperly terminated and that it continues to have a license.

In this scenario, assuming an arbitration clause that requires litigation of the infringement claim and arbitration of disputes concerning the termination of the license agreement, the arbitration concerning the propriety of the licensor’s termination of the contract should probably proceed first because it may be dispositive of the patent infringement claim. However, without any agreement in advance about the order of proceedings, one can easily see the parties asserting different positions in an effort to secure a tactical advantage.

Accordingly, if the parties wish to carve out infringement and invalidity claims from an arbitration clause, they should carefully consider provisions governing how a case like the one outlined above is to proceed, such as a provision stating that any contract claims that may be dispositive of a patent claim are to proceed first.

Patent-Specific Arbitration Rules

Parties to a license agreement should consider arbitration under patent-specific arbitration 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 US federal court, such as a claim construction hearing (see AAA Patent Rule 3).
- The World Intellectual Property Organization (WIPO) Arbitration Rules, which provide for specialized, patent-specific procedures, 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;” and
 - “models, drawings, or other materials.”

(See WIPO Arbitration Rules Articles 51-53.)

Alternatively, the parties may consider specifying their own patent-specific procedures in the arbitration clause. If a procedural aspect of a proceeding, such as a claim construction hearing, is critically important to one or both parties, the parties should address it in the arbitration clause, either by incorporating patent-specific rules that provide these procedures or a contract provision setting out the applicable procedures. A party should never assume they can obtain the agreement of the other party or the tribunal on a procedural matter once a dispute arises.

Interim Measures

Parties to a license agreement are often concerned about the ability to obtain preliminary injunctive relief if a dispute arises. An increasing number of arbitral institutions have provisions for so-called emergency measures, such as an injunction or an order for an immediate withdrawal of infringing goods from the market, before a tribunal is selected (see Practice Notes, Emergency Arbitrators in International Arbitration ([9-520-4691](#)) and Interim, Provisional and Conservatory Measures in US Arbitration: Interim Relief from the Arbitral Tribunal ([0-587-9225](#))). 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. This may undermine the purpose of seeking emergency measures.

Given an arbitrator's limited authority to enforce interim measures, parties should ensure that they can access a court for interim relief before (or even after) an arbitral tribunal is constituted. This can be accomplished by incorporating any of the major institutional rules, which commonly allow parties to seek interim relief from national courts, even after a tribunal has been selected. Most US 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 incorporating institutional arbitration rules that permit resort to national courts (see Practice Note, Interim, Provisional and Conservatory Measures in US Arbitration: Whether to Apply to the Arbitral Tribunal or the Court ([0-587-9225](#))).

In addition, to avoid any doubt, the parties should consider adding specific contract language specifying that the arbitration clause does not prohibit seeking interim relief in aid of arbitration. Parties should also consider, particularly in an international context, specifying a national court with exclusive jurisdiction over requests for interim measures. Without this type of provision, a US party may find itself on the receiving end of an injunction issued by a local court in the jurisdiction of its adversary that frustrates or otherwise undermines the arbitration proceedings.

Arbitrator Selection and Qualifications

Arbitrator selection in patent cases can be difficult, not only because patent cases can present highly complex technical factual and legal issues, but also because they often involve both contract and patent claims. Indeed, as noted above, patent cases often involve allegations of breach of a license agreement, which are frequently predicates to claims of patent infringement. The presence of contract and patent claims, particularly where the law of the contract is different than the law governing the patents, can make choosing an appropriate tribunal even more difficult. Take, for example, a dispute

involving a license agreement governed by Swiss law involving US patents in the field of semiconductors. A tribunal with facility with Swiss law may be perfectly suited to address the contract aspects of the dispute, but may be ill-suited to address the patent aspects of the case, and vice-versa. Arbitrators without the subject matter expertise for a particular dispute not only create risk with respect to a correct adjudication of the merits, but will inevitably drive up the cost of the proceeding because the tribunal must familiarize itself with the subject matter. Accordingly, parties should think critically at the time of contracting about the types of disputes that may arise and whether any steps can be taken to ensure that the most qualified arbitrators are chosen to decide disputes that may arise.

While most arbitration clauses do not specify the qualifications an arbitrator must possess (for example, a certain number of years of experience in a specific industry), counsel should at least consider including qualifications in their clause, especially if a potential dispute could be highly technical. However, parties should be careful not to define arbitrator qualifications so narrowly that they risk limiting the pool of potential arbitrators to a very small number of candidates. This could be particularly troublesome in a small or insular industry where potential arbitrators may have conflicts with one or more parties.

In addition, to provide flexibility, parties may consider agreeing to a set of arbitrator qualifications that apply to some disputes, but not others. For example, parties may specify that, if a dispute arises that implicates issues of patent infringement or patent invalidity, certain qualifications apply, but in a non-technical dispute over calculation of a royalty, these qualifications do not apply. It should go without saying that such provisions should be drafted very carefully and precisely to avoid disputes concerning the formation of the tribunal.

If the parties to a patent license agreement involving US patents agree to non-US law as the governing law of the contract, they should consider:

- The implications of a clause that requires certain technical qualifications for an arbitrator.
- The potential difficulties involved in appointing appropriate arbitrators in a dispute with both contract and patent issues.

For example, taking the example above concerning a license agreement involving US patents in the field of semiconductors that is governed by Swiss law, a requirement that the arbitrators be lawyers with experience in the field of semiconductors may make matters difficult for all parties if a dispute involves issues of Swiss contract law and US patent law. The universe of US patent lawyers with both electrical engineering experience and facility with Swiss law is likely to be extraordinarily small. A possible solution to this issue is for the parties to forego a requirement that arbitrators be experienced in the field of semiconductors, but to consent or agree in advance to the appointment of a patent law expert or technical advisor to assist the tribunal.

Choice of Law

Parties should clearly articulate in their agreement which law governs:

- The contract.
- Patent-related issues, such as infringement and invalidity.

The ruling in *Deprenyl Animal Health, Inc. v. University of Toronto Innovations Foundation* suggests what appears to be obvious—that the law of the country that issues a patent governs issues of infringement and validity, even if the license agreement is governed by a different law (297 F.3d 1343, 1358 (Fed. Cir. 2002)). Nonetheless, if a license agreement is governed by foreign law but involves US patents, the parties may wish to specify that US patent law governs issues of infringement and validity, including where these issues arise in the context of defenses or counterclaims, or both. This minimizes any potential risk of a dispute about the applicable law.

Seat of Arbitration

Many jurisdictions do not permit arbitration of disputes concerning patent invalidity. For example, invalidity claims are not arbitrable in China (see, for example, Country Q&A, Patent Litigation in China: Overview ([8-620-4407](#))), Brazil, Canada, Finland, or Italy. In Japan, disputes involving the invalidity, enforceability, and infringement of patents are arbitrable, but awards “declaring a patent utility model, design, or trademark invalid cannot be enforced absent an invalidity 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).

Parties should carefully consider the implications of agreeing to arbitrate disputes concerning US patents in a jurisdiction that does not permit arbitration of patent disputes. For instance, the parties should investigate whether either:

- The laws of these jurisdictions prohibit only patents issued in those jurisdictions from being arbitrated.
- Those jurisdictions prohibit arbitration of **any** patent dispute, regardless of the patents’ origins.

Arbitrating a patent dispute in one of these jurisdictions may result in an unenforceable award at the seat of arbitration. This, in turn, may lead to difficulty enforcing the award in the US.

Parties also should consider the arbitrability of patent disputes in the jurisdiction of the opposing party or in any jurisdiction in which they may seek to enforce an award, as adverse local law may frustrate enforcement efforts as well. Article V(2)(a) of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) provides that an arbitral award may be refused enforcement if “[t]he subject matter of the difference is not capable of settlement by arbitration under the law of” “the country in which enforcement is sought.” While this provision is rarely successfully invoked, it presents a risk that should be considered when drafting an arbitration clause.

Appeal of an Adverse Ruling

For some IP practitioners, the thought of losing a case concerning rights to technology crucial to a company without the right or ability to appeal is enough to foreclose even the possibility of arbitrating a dispute. For parties negotiating a license to technology that is crucial to their business, but prefer to arbitrate disputes about the license, practitioners should consider agreeing to appellate arbitration procedures as part of the arbitration agreement.

The major US arbitral institutions (AAA, JAMS, and CPR) now provide for appellate arbitration procedures and provide recommended provisions to include them. Under the AAA Rules, for example, an appellate tribunal can do any of the following:

- Adopt the underlying award as its own.
- Issue a new award, adopting those portions of the underlying award that it chooses to accept.
- Request additional information from the parties and extend the period for issuing a final decision by 30 days.

(AAA Optional Appellate Arbitration Rule Article A-19(a))

The grounds for review of an arbitral award under optional appellate rules are either equivalent to or roughly approximate to the grounds that are available if the case is litigated in court. For example:

- Under the JAMS Rules, the standard of review is the same that applies in the first-level appellate court in the jurisdiction at the seat of arbitration.
- Under the AAA and CPR Rules, an award may be reversed where it was based on a “material and prejudicial error of law” or factual findings that were “clearly erroneous.”

For more information see AAA, JAMS and CPR Comparison Chart for Optional Appellate Procedures ([7-604-7026](#)).

While appellate arbitration procedures certainly detract from the time and cost savings associated with arbitration, for parties whose commercial lifeblood is tied to the licensed patents, the value of an appellate option almost certainly outweighs the loss of those savings. For further analysis on whether to adopt these procedures, see Article, Optional Appellate Arbitration Rules: Are They Good For Your Case? ([w-000-5258](#))

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