Technology Disputes: Courts or Arbitration[1]

by Gary L. Benton[2]

Technology disputes span the range from basic contract disputes to multi-billion-dollar patent validity and infringement cases. The disputes can involve start-ups that are dealing with confidentiality and venture capital investment issues, middle market companies that are involved in "bet the company" IP disputes or Fortune 500 companies the likes of Apple, Google, HP and Oracle that are engaged in disputes that involve dozens of related cases in various courts and continents. Technology disputes are not limited to information technology. Technology disputes arise in a wide array of other business sectors, including telecommunications, biotech, pharmaceuticals and other science and engineering fields.

Traditionally, US technology companies have looked to a limited number of US courts to resolve technology disputes. Those courts, such as the US District Court for the Northern District of California, are situated near US technology centers and many of the judges in those courts have gained experience handling patent cases and other complex technology matters. However, most judges in the US do not any IP experience, technical training or technology law background. Moreover, increasingly, disputes are international and the opportunity to have matters decided in a court of choice becomes more difficult.

The Apple-Samsung smartphone dispute, one of the best known technology cases, is a case in point. This dispute involved over fifty lawsuits in ten countries. In what was termed the "patent trial of the century," Apple won a $1 billion jury verdict against Samsung in one of the U.S. lawsuits in 2012. That verdict has been whittled away in appeals to US appellate courts, and the last major issue involving design patent damages will be heard by the US Supreme Court. There were so many inconsistent decisions in foreign cases between the parties that the parties eventually dropped all the foreign cases.

The cost, delay and complexity in resolving technology company disputes is increasingly prompting parties involved in technology disputes to look for alternatives. Often cases involving technology are resolved by compromise in settlement or mediation proceedings. Where a settlement cannot be reached or a dispositive ruling is required, arbitration is increasingly looked to as a solution.

Arbitration can be done many different ways but there are, ultimately, two ways to do arbitration – the right way and the wrong way. This article compares and contrasts litigation and arbitration of technology disputes and, in doing so, offers some suggestions on the right way and the wrong way to do technology arbitration.

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As will be discussed, arbitration of technology disputes offers parties several benefits over litigation including, but not limited to expert decision-making, party autonomy and flexibility and cost and time efficiencies. For international technology disputes, there are several critically important additional benefits including the availability of a neutral forum, multi-national coordination, and foreign recognition of awards.

Forum Selection

In arbitration, unlike litigation, the parties always mutually select the forum – or at least they should. Parties ordinarily specify an agreed place (or, in international parlance, "seat") of the arbitration in their arbitration agreement. In the context of arbitrations between US parties it is typically where one party or the other is located. In the context of international arbitration, historically, the selected seat was in a "neutral" third country that has laws conducive to arbitration of the dispute.

In courts, it is often important to conduct a litigation where assets are located or where an injunction needs to be enforced. Although doing so may also make sense for an arbitration, arbitration awards are readily enforceable worldwide. For that reason, arbitration panels are well-suited to address multinational matters. What that means is that multinational disputes need not be litigated in the courts of multiple countries. Litigations can be effectively consolidated into a single arbitration that addresses the dispute at a multinational level. The parties could have the dispute resolved in a single arbitration proceeding conducted in a mutually convenient location, with hearings in other locations as needed.

Jurisdictional Scope and Defenses

Technology knows no boundaries, whereas courts are creatures of territorial definition. A court's power extends no further than the reach of its jurisdiction and a court's jurisdiction is limited by state or national boundaries. Given territorial limitations, U.S. courts have no power over foreign commerce and IP rights, just as foreign courts have no power over U.S. commerce and IP rights patents. As a result, courts offer limited benefits in the context of international business disputes, particularly global technology disputes.

Many of the jurisdictional pitfalls faced by national courts are avoided in international arbitration. The power of an arbitral tribunal to hear and adjudicate a case is provided by contract between the parties themselves. Questions concerning personal jurisdiction and subject matter jurisdiction do not come into play in the way they do in a court proceeding. In a properly drafted international arbitration agreement, the parties will specify the place of the arbitration, the applicable arbitral rules and the governing substantive law. In selecting the place of the arbitration, the parties submit to the power of the courts in that jurisdiction to compel and assist with the arbitration. The recognition of arbitration agreements and the global enforcement of arbitration awards are provided by both local law and international treaty protections.

While arbitration offers broader jurisdictional reach than a court proceeding, arbitration is prone to jurisdictional contests. In both US and international arbitration, it is not uncommon for parties to contest whether an arbitration clause applies to the parties, extends to the subject matter of the dispute or conflicts with the power of a local or foreign court or arbitral tribunal to decide the dispute. For this reason, it is critical that arbitration clauses be crystal clear as to parties, the scope of the clause, and the identity of the tribunal.

Judicial and Arbitral Administration

Litigators know all too well that each court relies on its own local procedures and practices. Of course the US federal courts follow the FRCP and the California state courts follow the CCP but, largely, each court administers cases on its own and counsel must familiarize themselves with local court rule, orders and practices. It is typically not the role of a court clerk to help the parties coordinate cases, particularly cases in other jurisdictions. In the international context, there is no coordination at all; the administration of a case in the U.S. has little bearing on a court in China or Brazil.

In contrast, arbitration offers a single proceeding typically administered for the parties by an arbitral institution. The selected arbitral institution oversees and administers the entire process from initiation of the proceeding, to assisting the parties in selecting the arbitration panel, to scheduling and ensuring the award is timely delivered to the parties. Some arbitral institutions have detailed processes to scrutinize draft awards. The quality of arbitral institutions and their rule provisions can vary widely but, at least among quality providers, the selected arbitral institution works at the behest of the parties rather than the parties being dependent on court clerks for administrative and scheduling support.

Judges, Juries and Arbitrators

The judges in most courts have no intellectual property or technical experience. One study of US cases concluded that, "judges with very little patent experience manage the vast majority of cases." Judicial inexperience with patent law and technology issues is not limited to the U.S. courts; most other non-U.S. jurisdictions similarly do not have specialized patent trial courts. There is an obvious problem in having complex technical matters decided by judges with limited technical experience. The problem is accentuated when disputes are to be resolved by foreign judges who may have local biases or may be outright hostile to foreign parties.

The reliance on juries in U.S. technology cases is another complicating factor in litigations. In the U.S., a party to a technology dispute has a constitutional right to a jury trial but there are no distinct prerequisites in serving on a jury for a patent trial. All too often jury trials are not decided based on technical understanding or principled application of the law. Jury cases are often theatrical exercises and the problem is exacerbated when, as is typical, neither the judge or the jury has even a remote understanding of the technology at issue.

In contrast, in arbitration, the parties hand-select the decision-makers. There are a variety of mechanisms used to select the arbitration panel. Typically, in smaller cases, particularly US-focused cases, a single arbitrator is selected jointly by the parties or appointed by the arbitral institution with guidance from the parties when the parties cannot agree. In larger cases, and typically in international cases, three neutral arbitrators are appointed, with each party selecting one arbitrator and the parties or party-appointed arbitrators jointly selecting the third arbitrator. Alternatively, the arbitrator(s) could be designated in the arbitration clause or appointed from a list provided by the arbitral institution. The rules of the leading arbitral institutions and the laws of many jurisdictions impose strict requirements for arbitrator neutrality and conflict disclosure, typically much more stringent than required of judges in many countries.

Thus, a chief advantage of international arbitration over court proceedings is the ability of the parties to select expert decision makers of their choosing. The parties are free to specify arbitrator qualifications in their arbitration agreement or simply appoint a panel that satisfies their requirements. Undoubtedly, a panel of skilled arbitrators, whether engineers, industry insiders or technology lawyers, are better qualified to address patent disputes than most jurors and many judges. The ability of parties to choose expert arbitrators would minimize the risk of an erroneous ruling by an unqualified judge or runaway jury and allow the parties more control in the process of resolving their dispute.

It is mind boggling that leading technology companies will allow disputes over their most precious assets to be decided by juries who have no understanding IP or technology law. Foreign parties rarely agree to US jury trials if they have a choice.

Increasingly many US technology companies are adopting arbitration as a better choice. In arbitration, the parties can select a panel of technology law experts of their choosing and engage in a much more efficient, focused proceeding. Arguably, a panel of three qualified arbitrators can collectively reach a reasoned decision on a patent matter as well as, if not better than, a single judge and almost certainly better than a jury lacking any legal or technical background.

Privacy and Confidentiality

Privacy and confidentiality are often important considerations in technology cases and require close consideration when analyzing the benefits of arbitration over litigation. Court proceedings are, of course, typically open to the public. In stark contrast, arbitration proceedings are private. Just like in a private business meeting, only the parties and their representatives may attend.

A distinction should be drawn between privacy and confidentiality. Privacy concerns who may attend the proceeding; confidentiality concerns what may be discussed outside the proceeding.

Typically, what occurs in a court proceeding is not confidential (except to the extent the court enters a protective order protecting the parties' proprietary information). Similarly, at least in the US, arbitrations are not necessarily confidential. As in court, the

parties have the opportunity to agree to a confidentiality order. Sometimes the rules of the leading arbitral institutions fill any gap requiring that the parties keep matters relating to the arbitration and award confidential. However, the best way to ensure confidentiality in technology arbitrations is to include a confidentiality provision in their arbitration agreement. By doing so, the only time anything about an arbitration may be acknowledged publicly is when a party files in court to seek assistance with the proceeding or the enforcement of the arbitration award or when the parties otherwise consent.

The privacy and opportunity for increased confidentiality offered by arbitration may be a key element for a party in deciding whether to arbitrate. Conversely the decision to try a case in court, and have greater public scrutiny, could be a strategic consideration as well. Litigation mandates exposure to party scrutiny while arbitration provides the parties a choice in the matter.

Injunctive Relief

Injunctive relief can be an important factor in technology disputes, particularly where it is important to protect alleged trade secrets or limit potential damages through temporary, preliminary and permanent injunctive relief. Generally, the same substantive considerations apply in court and in arbitration. Injunctive relief in arbitration provides some greater certainty because there is limited if any appellate review. In multinational cases, arbitration can provide an advantage in avoiding divergent results from jurisdiction to jurisdiction.

There were historical concerns over whether arbitral tribunals could issue injunctive relief. In the US and in much of the world, that is no longer a concern. There remains a concern over enforcement, as arbitrators merely issue awards and it is up to the parties to seek judicial enforcement. In the US and most over jurisdictions, injunction awards are now routinely enforced by the courts. For that matter, it is rare for a party to refuse compliance with a preliminary injunction granted by an arbitration panel because doing so risks an adverse final award.

Additionally, leading arbitral institutions in the US and elsewhere now offer emergency arbitrator appointments, often allowing matters emergency relief as quickly as within 24 hours.

Discovery

The availability of discovery in arbitration is widely misunderstood. Because arbitration offers the opportunity for expedited decision-making, some litigators avoid arbitration on the mistaken belief they cannot have discovery. To the contrary, the parties are free to provide for discovery in their arbitration agreement and, even where that is not done, counsel remain free to stipulate to reasonable discovery.

A good Arbitrator will encourage the parties to be cost-efficient and limit discovery but the decision belongs to the parties. Some arbitration provider rules

expressly allow discovery. Only where the parties do not agree, will the Arbitrator impose reasonable limitations. In nearly all cases, at a minimum, parties will exchange documents they intend to rely on and will be allowed a reasonable number of document requests. In larger cases, discovery, including deposition and written discovery, is typically allowed.

There is a different approach in international arbitration, largely because international arbitration traditionally involved non-US parties who rely on advance exchanges of witness statements rather than discovery before a hearing. Accordingly, international arbitration favors a minimal "disclosure" of information whereas US litigation (and US-style arbitration) involves a broader pre-trial production of all evidence. Depositions and interrogatories are generally inconsistent with the standard international arbitration process. In some cases, limited document requests are allowed. In many cases, where US parties, counsel and arbitrators are involved, it is not unusual to see greater US-style discovery.

Disclosure in arbitration is far less burdensome and some would argue much more reasonable. In a major case, considerable unnecessary cost can be avoided by having limits on discovery. If the parties want extensive discovery, the best strategy is to specify what discovery is to be allowed in the arbitration clause.

Experts

Expert testimony is often critical in both the litigation and arbitration of technology disputes. In litigation, the parties spend considerable amounts of time and money in qualifying and educating experts and having them prepare their testimony for written reports, depositions and trial. Expert presentations to juries are often colorful. While courts regard experts as important in providing damage calculations, they have warned against using experts as "hired guns" for presenting an "impenetrable facade of mathematics" to a jury.

The chief difference between litigation and arbitration is the audience to which the experts present their testimony. In arbitration, the expert presentation is made to an arbitral panel that presumably has more skill in the subject matter than a typical judge or jury.

In some international arbitrations, particularly those with civil law trained arbitrators, a single expert is appointed by the tribunal. That is probably never the case where US parties, counsel and arbitrators are involved, and it would never be done without party consent.

What is clear is that in arbitration, expert witness testimony is more efficient. Having the experts present to a skilled panel rather than a jury saves costs and allows proper focus on the merits of the case.

Hearing Procedure

An arbitration hearing is not greatly dissimilar from a court trial, although it differs in terms of formality and process details. In litigation, procedural and evidentiary rules strictly govern the trial. An arbitration hearing is conducted in a less formal and ideally more expedient manner but with the similar goal of a fair hearing on the merits.

Arbitration permits the parties to jointly develop a hearing process that suits the case. This principal of "party autonomy" is often lost on trial lawyers who have grown accustomed to having court rules set out for them. These are lawyer who fail to take advantage of the flexibility offered by arbitration and the opportunity to collaborate with opposing counsel. They come to the arbitration hearing with stacks of voir dire motions, make unnecessary evidentiary motions, want lengthy opening and closing statements and offer their case as if they are presenting to a jury. This approach does not serve their clients well.

It should be noted that international arbitration hearings may vary from US arbitrations. In international arbitration, direct testimony traditionally comes in the form of written affidavits submitted in advance of the hearing. Doing so makes the introduction of direct testimony more efficient and allows counsel and the tribunal to focus on areas in need of clarification.

Overall, the hearing in a technology arbitration should be much more efficient than in a court case. Not only are the formalities relaxed but, if the arbitrator selection was done right, the case is presented to experts in the field who will understand and quickly focus on the key issues.

Finally, it is appropriate to mention another major misperception. Some litigators avoid arbitration on the mistaken belief arbitrators do not follow the law. In fact, surveys show capable arbitrators follow the law in over 99% of all cases. Although some arbitral rules give arbitrators some latitude in following equitable principles but it is rarely the case that a capable arbitrator will not apply the law. (The Ninth Circuit has held that manifest disregard of the law is a valid basis to vacate an arbitration award under the Federal Arbitration Act; however, there is a split among the circuits.)

Appellate Review and Award Confirmation

Appellate review corrects errors made by judges and juries but it also adds time, cost and uncertainty to the litigation process. That is why many technology cases, particularly US patent cases, are routinely reversed. While appellate review is beneficial to correct errors, the litigation process would be more efficient if errors did not occur in the first place.

There is generally no appeal from the award of an arbitration tribunal. Arguably, an arbitral tribunal is best situated to reach a correct decision in the first place thereby avoiding the necessity for appeal. Technology arbitration cases normally have the advantage of having a tribunal composed of technology law experts. As well, the

collaborative nature of the arbitration deliberations effectively provides a "built in" error-checking mechanism.

For some parties these safeguards are not enough. They have the opportunity to put in place procedures for arbitration awards to be reviewed by appellate arbitration panels just as appellate courts would review judgments.

It is clear that arbitration provides the opportunity for expedited decision-making. One means of doing so is ensuring safeguards are built into the process so that appellate review is not necessary. Typically, arbitration awards are complied with without any need for enforcement. Where enforcement is required, the award may be confirmed in a summary proceeding by the local court for enforcement. In international cases, the award may be enforced internationally.

International Award Recognition

International arbitration awards are widely recognized and enforceable around the world. The 1958 U.N. Convention on the Recognition and Enforcement of Arbitral Awards ("the New York Convention") allows for international recognition and enforcement of international arbitration awards made in member states. Currently there are 153 member states. The Convention allows only narrow exceptions to enforcement.

In contrast, there is yet to be a widely adopted multi-national treaty for the enforcement of court judgments and the US is not a signatory to any bilateral treaties enforcing US court judgments. Accordingly, the only way to enforce a court judgment abroad is to rely on local laws. In most countries, foreign court judgments are not recognized or enforceable. What this means is that, typically, a foreign court judgment has no value and the case must be started all over again in the foreign country.

Arbitration awards offer another important benefit for the technology sector. Not only may an arbitration award be enforced overseas, it can be enforced in multiple jurisdictions. This is very useful where the parties compete in multiple jurisdictions, where IP is located in multiple jurisdictions or assets to satisfy an award must be obtained from multiple jurisdictions. A U.S. court judgment would not provide any of these benefits.

Conclusion

Arbitration is not the right solution for every technology dispute but it offers numerous benefits over litigation in many cases. The chief advantage is that the parties can select a panel of technology law experts of their choosing and engage in a much more efficient and focused proceeding. Arguably a panel of three qualified arbitrators can collectively reach a reasoned decision on a technology case as well as, if not better than, a single judge and almost certainly better than a jury lacking legal or technical background. Other benefits include party autonomy and flexibility and cost and time efficiencies. In international cases, arbitration offers significant advantages through multinational coordination and foreign recognition of awards.

The risk with arbitration, particularly technology arbitration, is that it is not done right. It is important that the parties have clear arbitration clauses, select capable, skilled arbitrators and implement sound rules and procedures. Although arbitration provides the opportunity for cost and time efficiencies, those opportunities can be lost where the arbitration clause is unclear and where counsel or the arbitration panel mismanages the process. On the other hand, when done right, arbitration provides significant cost, timing and other procedural and substantive advantages to the parties.

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