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Resolving License Disputes Through Arbitration (US and International)

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Introduction: What We Will Cover



- I. The Key Characteristics of License Disputes
- II. What Strategic Decisions Must Be Made in a License Dispute Arbitration?
- III. Lessons for Drafting Arbitration Clauses in License Agreements



Part I

KEY CHARACTERISTICS OF LICENSE DISPUTES



License Disputes: Key Characteristics



License Disputes Typically Involve:

- Intellectual Property
- Highly Technical Facts
- Accounting and/or Audit Issues
- Substantial Expert Testimony
- Potential Claims for Equitable Relief
- Arbitration as the Dispute Resolution Method



License Disputes: The IP at Issue

The IP at Issue in License Disputes May Include:

Patents

Example: Licenses covering patented products or technology.

Trade Secrets or Know-How

Example: Software and other IT licenses.

Copyrights

Example: Software and other IT licenses.

Trademarks

Example: Co-Marketing and distribution agreements.



License Disputes: Major Issues



License Disputes Typically Involve Claims of:

- Unpaid Royalties
- Misappropriated IP
- IP Infringement
- Disputes over Scope of License
- Other Breaches of Contract
- Damages

Part II

KEY STRATEGIC DECISIONS IN A LICENSE DISPUTE ARBITRATION



Key Strategic Decisions



Key Strategic Decisions include:

- What Claims Should the Arbitrator Decide?
- Is Preliminary Injunctive Relief Needed?
- What are the Major Factual and Legal Issues?
- What Arbitrators Should Be Selected?
- What Experts Should Be Retained?
- What Kinds of Discovery is Needed?
- What is the Best Way to Present the Case?



What Claims Should the Arbitrator Decide?



Key Question: Do You Want the Arbitrators to Decide Some, All, or None of the Claims in the Dispute?

The answer to this question will determine the scope of the claims you bring in the arbitration, and which, if any, claims or counterclaims you may seek to dismiss.

Is Preliminary Injunctive Relief Needed?



License disputes sometimes give rise to emergent situations requiring injunctive relief to preserve the status quo.

Examples: Misuse of proprietary information or threatened removal of relevant evidence.

In these cases, a preliminary injunction should be considered from either:

- A court (“injunction in aid of arbitration”); or
- An emergency arbitrator



What are the Major Legal and Factual Issues?



Identify Key Issues to Develop Your Case Themes

- What are the Contractual Issues?
- What are the Accounting and/or Audit Issues?
- What are the Technical Issues?
- What are the Other Factual Issues?
- What are the Damages Issues?

Selecting the Arbitrators



I. Party-Appointed Arbitrators

Interview is critical

- What is the candidate's understanding of her role?

Goal - Select an arbitrator who will be:

- Receptive to your case; and
- Persuasive in presenting your case to the other arbitrators

Desired attributes: experienced, respected, collegial



Selecting the Arbitrators



II. Arbitrator Selected by the Administrator

Parties can have input (*e.g.*, “strike and rank”).

More likely to get a truly “neutral” panel.

Desired attributes: experienced, respected, collegial

Background in the relevant technology or area of the law?

- Two potential risks:
 - Smaller pool of candidates
 - Deeply-ingrained ideas in area of expertise

Selecting Experts



Experts Play a Critical Role in License Disputes

High Technical Competence

- Accounting/audit
- Relevant technology
- Economics of Licensing
- Damages

Testimonial experience in arbitrations

- Both deposition and hearing testimony
- “Hot tubbing”



What Discovery Is Needed?



International Arbitrations

- No depositions
- Document production only on a showing of relevance

U.S. Arbitrations

- Depositions (if any) limited to parties and/or experts
- Document production only on a showing of relevance

Must work with experts to identify the specific evidence needed to support your case.



Effective Presentation of Hearing Evidence



The Presentation of Hearing Evidence Will Benefit From:

The development of two or three unifying themes built on fact and expert testimony.

The use of two or three experts as the “pillars” of the substantive case:

- Accounting or Audit Expert
- Technical Expert

In addition, if the case turns on disputed contract terms, the use of a Licensing Expert to support contract interpretations can be very effective.

Use of Licensing Expert to Support Contract Interpretation



Example: “Stacking” Provision

- Provided for royalty deduction if licensee had to pay royalties to a third-party to use the licensed technology
- Licensee argued that the stacking deduction applied to royalties it continued to pay for third-party licenses it entered into before the parties’ agreement.
- Licensing expert explained that the rationale for a stacking deduction applies only to third-party royalties not in existence at the time of negotiations. If the third-party royalties are in existence at the time of negotiations, the licensee can take them into account in negotiating the royalty rate.



Part III

LESSONS FOR DRAFTING ARBITRATION CLAUSES IN LICENSE AGREEMENTS



Arbitration Clauses for Licenses



Strategic Issues

- I. Is the other company based in a different country?
- II. Is a dispute arising from this license likely to be an important case for the company?
- III. How important is confidentiality?
- IV. How important is discovery?
- V. How important is a cost containment?
- VI. How important is equitable relief from a court?



Arbitration Clause Checklist for Licenses



Key Issues:

- I. Scope of Arbitrable Issues
- II. Procedural Rules, Governing Law and Venue
- III. How are the Arbitrators Selected?
- IV. What Remedies Can the Arbitrators Impose?
- V. Scope of Discovery
- VI. Hearing Procedures and Duration
- VII. Confidentiality
- VIII. Enforcement

Scope of Arbitrable Disputes



Alternatives:

- I. All issues to be resolved by arbitration.
- II. Limit scope by excluding specific issues—*e.g.*, the arbitrator shall not decide any issues of patent validity.
- III. Carve out certain issues (*e.g.*, equitable relief) for a court.

Note: Licensors in particular should give strong consideration to a “carve out” provision giving the parties the right to apply for equitable relief from a court. Such a provision could facilitate the availability of injunctive relief to protect IP or compel compliance with audit requirements. It could also provide a source of supplemental discovery, as well as a “hedge” against the risk of an arbitrary decision by an arbitrator.



Governing Law, Venue and Administrator



These Matters Should Be Carefully Considered

Governing Law

- Choose a law that recognizes IP rights
- Consider stances on contract interpretation and parole evidence

Venue (Seat of Hearing)

- Choose an arbitration-friendly jurisdiction

Administering Institution

- Incorporate by reference the Institution's Rules

Qualifications of Arbitrators



Alternatives:

- I. Require experience in relevant industry or area of law.
- II. Restrictions on nationality (international).
- III. No requirements or restrictions.

Note: As noted earlier, Arbitrators having experience in the relevant industry or technology may have deeply-ingrained ideas that do not align with the company's theory of the case—and may be difficult to overcome.

Selection of Arbitrators



Alternatives:

I. Selection by the Administrator

- a) The Administrator selects the arbitrator(s)
- b) Parties can have input (*e.g.*, “strike and rank”)
- c) Best calculated to create a neutral panel

II. Party-Appointed Arbitrators

- a) Each party selects an arbitrator and the two party-appointed arbitrators choose a Chairperson

Confidentiality

Alternatives:

- I. Include provisions protecting the confidentiality of documents, testimony, pleadings and award
 - Example: Require both parties to return all discovery after conclusion.
 - Example: Require all transcripts and pleadings to be destroyed after conclusion.

Note: If the confidentiality of the *decision* is a major concern, it will often dictate the content of other provisions. For example, the company may want to require a “bottom line” only award.

Discovery



Alternatives:

- I. Leave to arbitrator's discretion.
- II. No discovery.
- III. Limit discovery:
 - a) Limit the number of depositions (or bar any depositions)
 - b) Expert depositions only
 - c) No third-party subpoenas
 - d) Showing of relevance required for document production

Note: Although a licensor will typically have audit rights under the license agreement, this does not mean that the licensor will not need discovery. In some cases, a licensee will fail to comply fully with the audit requirements.

Hearing Procedures



Alternatives:

- I. Leave to arbitrator's discretion.
- II. Incorporate rules of evidence—*e.g.*, the IBA Rules of Evidence.
- III. Limit the number of fact and/or expert witnesses.
- IV. Limit each party's time at hearing (“chess clock” hearing).

Form of the Award

Alternatives:

I. Reasoned opinion

II. Bottom line

III. Baseball Arbitration

Note: If confidentiality is a major concern, the company should consider an award that simply identifies the prevailing party and the amount of the award (*i.e.*, no reasoned award).

Scope of Relief



Alternatives:

- I. Leave to the discretion of the arbitrators.
- II. Bar certain types of damages (*e.g.*, punitive).
- III. Bar (or require) the award of attorneys' fees.
- IV. Authorize an award of attorneys' fees only with certain motions.
- V. "Baseball Arbitration" — Arbitrator must choose one of the parties' proposed awards.

Interim and Equitable Relief



Alternatives:

- I. Parties can apply to a court for equitable relief.
- II. Permit the arbitrator to award equitable relief.
- III. Bar or limit equitable relief.
- IV. Provide that the Administrator's "Emergency Arbitrator Provisions" are available.

Sample Clauses

We would be delighted to respond by email or phone to any specific inquiries. We can also provide sample arbitration clauses incorporating any of the provisions discussed in the webinar.



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