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Inside

A publication of the Corporate Counsel Section
of the New York State Bar Association

Message from the Chair

To the Members of the Corporate Counsel Section:

It's hard to believe that the year has already passed the mid-point as I write this in July (and it will be Fall or nearly so when you read it). I'm happy to report that the state of our Section so far this year is very healthy.

KGS Diversity Internship Program

Next up on our calendar is the annual reception on July 23rd to honor the law student interns and their employers who are participating in this year's Kenneth G. Standard Diversity Internship Program. The reception is being hosted once again by the law firm of Pryor Cashman LLP in their Times Square office. The 2014 recipient of the New York Bar Foundation Fellowship (funded by the Section) is Anita Yee of Brooklyn Law School, who has been interning at The Visiting Nurse Service of New York. In addition to the Foundation intern, The ACE Group hosted Ashley Dougherty and Neera Roopsingh, both from Albany Law School; AllianceBernstein hosted Susan Rhee of CUNY Law School; NYSTEC hosted Christina Arriaga of Albany Law School; Pepsi Co., Inc. hosted Jakarri Hamlin of New York University School of Law; Pitney Bowes hosted Alif Mia of Fordham Law School; and Salesforce.com hosted Ryan Cloutier of Fordham Law School. As I noted in my prior Message, the KGS Program identifies and financially supports 50% of two in-house internship opportunities for law students from a diverse range of backgrounds to provide them with the chance to experience in-house legal practice. The ACE Group, AllianceBernstein,

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Special Issue: Litigation and Arbitration

NYSTEC and Salesforce.com this year enabled the Section to extend the scope of the program by supporting the full salary of their respective student interns. The Section is grateful to Pryor Cashman for hosting the reception, and to the New York Bar Foundation, individual donors, and the Kaplan Bar Review for their financial support of the program.

Ethics for Corporate Counsel and Other CLE Programs

Our Section's popular and highly regarded Ethics for Corporate Counsel CLE program, once again under the auspices of Program Chair Steve Nachimson, will be offered this year on the afternoon of Thursday, October 23, 2014 from 1:00-4:30 pm at the Cornell Club in Manhattan. Details of the program, which will be followed by an hour-long Member Appreciation and Networking reception (at no charge to Section members), are covered in a separate notice elsewhere in this issue, so let me just say that I urge all Section members to attend if they possibly can. This program not only fulfills your 4-hour biennial CLE requirement for ethics, but judging from the high qualifications of each of the panelists (and from past experience, since many of them, including the Panel Chair, Michael Ross, are repeats), will do so in a way that is both relevant to your practice and highly engaging. By the time you see this you will most likely have already received an email invitation to register for the program, but if you missed it, please contact our NYSBA Staff Attorney Liaison, Patricia Johnson, at pjohnson@nysba.org.

Corporate Counsel Section Web Page and "Community"

If you haven't recently checked out the Section's web page on the nysba.org website, please take a look. Among other updates, thanks to the efforts of our Technology and New Media Committee headed by Natalie Sulimani and Fawn Horvath, you will find links to three new short video messages. The first one, from me, introduces the other two, from longtime Section member (and former Chair) Mitch Borger of Macy's, and more recent member (and former Secretary) Sarah Feingold, of Etsy. Each of us explains in his or her own way how and why we have found the Section valuable to us both personally and professionally, and why you should remain (or become) a member.

As explained in my prior message, the New York State Bar Association is slowly but steadily introducing electronic "communities" as an adjunct to the nysba.org website. Your Executive Committee (EC) has been using its own private Community for several months now as a common repository for Section-related documents such as Minutes of meetings and event rosters, announcements and notices, and discussions on topics of common interest. As with all NYSBA communities, each EC member can select how to receive email communications from the EC Community, whether in real time, or via a daily or weekly digest. We have found that participation in the Community has been slowly but steadily increasing. There are a number of other Communities on the nysba.org website that are already accessible to all NYSBA members, such as the Technology Community. We are planning to use a new Community page being established by NYSBA to enable Section members to interact with law students as part of NYSBA's Pathways to the Profession initiative. As mentioned in my last Message in the Spring/Summer edition of *Inside*, the Section will soon be rolling out a Section-wide Community and inviting all Section members to participate. Please watch for an announcement inviting you to join the Corporate Counsel Section Community and explaining what you need to do to sign up and participate (you may possibly have already received this announcement by the time you read this). I think you will find the process quite straightforward, and once you have done it, you will have at your fingertips a new and useful benefit of membership in the Section.

Member Appreciation and Networking (MA&N) and Other Events

Our first 2014 MA&N event took place on June 18, 2014 at Upstairs at the Kimberly Hotel in Manhattan and was greatly enjoyed by all who participated. A second one has been planned immediately following the Ethics for Corporate Counsel program on October 23rd at the Cornell Club, also in Manhattan, from 4:30-5:30 pm. By the time you read this, you should have received a detailed invitation with RSVP for this event, but if not, it will be forthcoming shortly. I hope to see you there.

Another event that will have happened before you read this involves our Section's joining with the Entertainment, Arts and Sports Law ("EASL") Section to invite members of the Young Lawyers Section ("YLS") to come with us to a minor league Class A baseball game at the stadium of the Brooklyn Cyclones in Coney Island, NY where the Cyclones will take on the Auburn Doubledays on July 31, 2014. Although not subsidized by the Section, this event is a reasonably priced evening of baseball fun, costing only $21 for a reserved box seat including a $7 food voucher and provides a great opportunity for members of each Section to get to know each other as well as members of the other participating Sections.

Also in the works, but not definitely established at this time, are a member event being planned primarily for the benefit of Section members in the Westchester-Rockland-Orange County and nearby area, and a joint CLE program to be co-sponsored by our Section and the Dispute Resolution Section. You will receive (or will have received) details of these events as they become available.

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Inside *Inside*

All good things come to an end, and as Allison told you in her last issue of *Inside,* our tenure as joint editors of *Inside* is ending. We are proud of the things we accomplished at *Inside*, extending both its size and the scope. It is not easy to write for corporate counsel given the diversity of specialties we practice. We have tried to meet this challenge with special issues exploring various legal subjects in depth (this is a blockbuster issue on litigation and arbitration) and by generalist features on books, movies, health, and lifestyle. Not only have we trebled the size of *Inside*, we have expanded it from being a section newsletter to being a serious substantive player.

Naturally, we did not do this alone. Some thanks are in order: To my co-editor, Allison Tomlinson, who was the unflappable to my flappable, it is a pleasure to have worked with you.

To all of my writers, thank you for timely and professional pieces. To our liaisons at the NYSBA, Wendy Harbour and Lyn Curtis, thank you for your patience and help. To the new editors, Jessica Thaler and Matthew Bobrow, good luck, and feel free to contact me for any assistance you might need.

Most of all, special thanks to some special writers who were there for me every time I asked (and I kept asking): Mark Grossman, Joel Greenwald, David Abeshouse, Natalie Sulimani, and Clara Flebus, who never said no, always wrote with an eye to the useful and practical, and have become friends over the years

I now move on to other things. I will continue to teach my Corporate Counseling Course at Fordham Law School and have added to my portfolio a gig as Legislative and Media Advisor to AARP.

I will miss you all!

Janice Handler

Message from the Chair

(Continued from page 2)

Transition Time at *Inside*

Once again, my great thanks to the hard working and productive co-Editors of *Inside*, Janice Handler and Allison Tomlinson, who have so ably brought you this newsletter in recent years. The Spring/Summer issue was Allison's last, and this issue is Janice's last as co-Editor. The next issue, expected to appear in January 2015, will be co-edited by our new editorial team of EC member Jessica Thaler and law student CCS member Matthew Bobrow, and we look forward to seeing what they will bring to our Section's flagship publication.

Feedback

As your Chair, I welcome comments, questions and feedback from Section members at any time. Please feel free to email me at: tareed1943@gmail.com, and I will respond as promptly as possible.

Tom Reed

The Business Implications of High Stakes Litigation: Process, Players and Consequences

By Joseph M. Drayton

With high stakes litigation, a trial win is not necessarily the optimal outcome for a business. High stakes litigation is oftentimes an extremely complex process, which is typically linked to the business imperatives of a corporate party. As a result, the definition of a "win" will be driven by the goals of the corporation as well as the merits of each case while ultimately defined by the various stakeholders within the company. Therefore, it is imperative that in-house counsel work closely with outside counsel to identify and communicate with the relevant stakeholders. This article provides a high level road map for the management of high stakes litigation by the corporate and law firm counsel responsible for the day to day aspects of the litigation.

Recognize High Stakes Litigation

Before delving into the process, players and consequences of high stakes litigation, it is necessary for counsel to be well prepared to properly identify litigation as high stakes. This classification will vary depending on the size and business model of a corporate entity.

Competitor v. Competitor

One of the most basic forms of high stakes litigation is disputes between market competitors. Oftentimes, the outcome of litigation will provide a strategic advantage to one competitor and leave another at a distinct disadvantage. Because of this dichotomy, once made public through the initiation of litigation, the applicable industry, media, customers, and the public will keenly observe significant milestones and the ultimate outcome of the dispute. This visibility increases the stakes for all involved.

Class Action Litigation

Class action litigation ("Class Actions") is another form of high stakes litigation. Given that a large portion of the public is implicated in this type of litigation, there are generally multiple well-funded plaintiffs' attorneys at the helm of these cases seeking large damages awards and sizeable attorneys' fees. Thus, there is a collective brain trust that strategizes against the corporate defendant, which should not be underestimated. Further, Class Actions are classified as high stakes litigation because these lawsuits may also seek changes in business practices and protocols. Some of these practices may catch the attention of federal regulators which adds to the complexity of class action litigation. At times, a corporate entity can have multiple forms of litigation spawn out of a Class Action. Lastly, the damages award sought by a plaintiff class, if granted, can materially impact a business's revenue goals or its share price, even if reserves are set aside in the event of a judgment.

Subject Matter Specific Litigation

The nature of a specific litigation can also provide some insight as to whether it may be or become high stakes litigation. For example, a patent dispute may implicate mission critical issues for a business as patents can exclude an entity from using a device or process central to its business. Similarly, trademarks can prevent a business from using a slogan or a brand name after expending significant resources developing and protecting a mark. Products liability cases are another example of high stakes litigation as these cases typically involve products that are key revenue generators which are sold and marketed only after a significant investment of time and money. Finally, antitrust and securities cases, are almost always high stakes litigation as they tend to implicate executive leadership including some or all of the board of directors and can involve substantial civil litigation by the government.

To further drill down on whether a litigation is high stakes, a practitioner should consider the following additional key characteristics of the litigation. First, if the relief sought is equitable, consider whether a key practice or business initiative is in jeopardy of being banned or modified if the equitable remedy is granted. Second, is the theory of the case novel? If so, the case may garner more attention than expected from the media, regulatory agencies, and the general public if the case has the potential to set new precedent. Third, closely evaluate the choice of counsel. If you are surprised by the caliber of the attorney and/or the law firm handling the case, you should attempt to discern whether there is some aspect of the case that implicates a significant business strategy or initiative of either your client or your adversary.

Customers

Customers can be adversely impacted by litigation. First, competitors often use litigation as a way to market their products or bolster their intellectual property rights. Second, many businesses indemnify their customers for various claims related to the business's products and services. Such an indemnification may cover infringement of

a third party's intellectual property, the failure to adhere to governmental rules and regulations, product defects and the like. When a client's business model is B2B, such indemnifications may have material implications to a business. For example, a supplier may agree to indemnify its customers against third-party claims of infringement, and thereafter, one of the customers or a representative group of customers may be subsequently sued by a third-party patent holder. The amount in dispute may be manageable in the first case or set of cases and may not at first glance seem material to the supplier's bottom line. However, to the extent that the same patent holder intends to sue multiple customers or groups of customers over a period of years, the aggregate exposure to the supplier may rise to a substantial level. In this instance, the defense of the initial litigation becomes high stakes as it may ultimately decide the supplier's ability to contain, defend and minimize the exposure to the patent holder's attack on its customers. Therefore, anytime a customer is involved in litigation over a client's products, an inquiry should be made as to the ultimate consequences of the litigation in both the short and long term.

Effective Communication with Stakeholders

As discussed previously, there are always several stakeholders in any high stakes litigation. These stakeholders will likely include the chief executive officer, the chief operating officer and the chief administrative officer, which may be the general counsel. The board of a corporation will likely request a briefing on any high stakes litigation as well as select and/or approve outside counsel. Depending on the size of the corporation, the office of the general counsel, the head of litigation, the attorney for the business at issue and the frontline litigation counsel will have varying degrees of involvement and responsibilities for any ongoing high stakes litigation. Oftentimes, insurance carriers will want to be either in control of or kept up to date on any litigation covered by insurance. The individuals responsible for the public relations and auditing functions within a corporation will also be key partners with the office of general counsel in handling the messaging, internally and externally, regarding high stakes litigation. Each of the above stakeholders will want regular communication in the form most beneficial to them and according to a schedule optimal for their internal and external reporting and/or oversight obligations. Both the frontline litigation counsel and lead outside counsel, individuals closest to and most responsible for the day-to-day aspects of the litigation, must understand the concerns and needs of each stakeholder and incorporate these considerations into any litigation plan.

In order to efficiently and effectively meet the expectations of all of the stakeholders, the frontline in-house litigation counsel and the lead outside counsel should invest the time to define the dispute, predict the likely outcomes and identify the relevant business imperatives. These data points are best communicated in a clear, concise, coherent and, succinct narrative. The level of detail communicated will vary from stakeholder to stakeholder, but the story should be consistent and well developed. As the caretakers of the high stakes litigation, the frontline in-house litigation counsel and the lead outside counsel must instill confidence in their clients through effective communication and exchange of ideas. Without a clear and consistent message, the stakeholders may have concerns regarding competency or veracity. Thus, the frontline in-house litigation counsel and the lead outside counsel must be prepared to both update and make the appropriate inquiries necessary to gather key information from each stakeholder.

Gather Key Facts

In order to appropriately manage high stakes litigation, it is crucial to have a deep understanding of the key facts. Such information includes (1) the facts relevant to the dispute and (2) the facts related to the business that can help best define a "win." At times, these facts will overlap, but they may also be very different as the facts relevant to the business's goals may be unrelated to the claims of a litigation. An important set of facts will be the key players who will be the guidepost to the key documents. With this information, the relevant legal theories and any damages exposure can be assessed. At this juncture, counsel should be well positioned to confirm whether or not litigation is high stakes. If so, engage the appropriate stakeholders. If not, a misclassification of litigation can be avoided. Given the level of resources and attention allocated to high stakes litigation, significant resources may be wasted by misclassifying a litigation as high stakes. It is, therefore, important not to sound the alarm for high stakes litigation prematurely and misidentify litigation as high stakes. Credibility is a key part of effectively managing any litigation, especially, high stakes litigation. Therefore, correctly identifying such matters is an important step to building a good reputation with an internal client and/or corporate law department.

Outside counsel will be able to assist in-house counsel with the gathering of key facts. A preliminary case assessment will be extremely helpful to in-house counsel and can be revised over the life of a high stakes litigation. Any assessment should include (1) recommended strategies; (2) key facts from the outside counsel's perspec-

tive (which will need to be supplemented by in-house counsel); (3) the status of the case; (4) the implications of insurance coverage and any alternative dispute resolution; (5) likelihood of settlement; (6) legal analysis including liability and key defenses; (7) the strength and weakness of the case; and (8) a budget or proposed fee arrangement.

Assess Litigation Risks

Once in-house litigation counsel has a preliminary overview of the high stakes litigation, he or she should assess the risks of the litigation. Consider the impact on consumers, vendors, strategic business partners and shareholders. If a business's success is built on consumer loyalty and brand reputation (like the big box model), there is likely little incentive to be engaged in protracted consumer and/or employment class action litigation. A few exemplary questions to consider: Is there a possibility of the outcome affecting future litigation or pre-litigation disputes or negotiations? Have internal peers (who are not stakeholders) been engaged as sounding boards and for their assessment of any risks? Has the team's trial attorney (oftentimes different from the lead attorney) weighed in? Is confidential pre-litigation alternative dispute resolution an option? Given the downside that can accompany high stakes litigation, an in-house litigation counsel should attempt to gather as much input as possible to accurately assess the risk. A risk assessment will shape the goals for the litigation and ultimately drives litigation and settlement strategies.

Conclusion

Once in-house litigation counsel has identified a dispute as high stakes, counsel must effectively communicate with key stakeholders, gather the key facts and assess the risks of the litigation in order to be in an optimal position to set a litigation strategy. Once a strategy is in place, counsel should ensure that it is consistent with the corporation's interests and accounts for the strengths and weakness of the case as it develops. Counsel should, where possible, seek consensus on strategy from those share responsibility for the outcome of the high stakes litigation. A key to successfully managing and "winning" high stakes litigation will be repeating each of the above steps at crucial milestones for the litigation and the relevant business.

Joseph M. Drayton is a partner in the New York office of Cooley LLP and is an experienced trial attorney who was named among the National Bar Association's Nation's Best Advocates: 40 Lawyers Under 40 in 2010. Mr. Drayton's practice background includes a broad range of patent, intellectual property and complex commercial matters. For 2012 and 2103, he was named to the *IAM* Patent 1000 list, a recognition that honors the top patent practitioners in the world. He practices before state and federal courts, as well as the International Trade Commission. He has been a lead member of numerous patent trial teams, including four over the past few years. Mr. Drayton has handled temporary restraining orders, preliminary injunctions, all facets of motion practice and complex discovery. He has represented leading companies in the media, telecommunications, banking, private equity, pharmaceutical, electronics and retail industries.

Mr. Drayton holds a B.S. in Electrical Engineering from the University of Maryland, College Park, and a Juris Doctor from the University of Pennsylvania Law School. He is admitted to the Bar in the states of New York and Maryland as well as the District of Columbia. Mr. Drayton is an active leader in both the American Bar Association and National Bar Association. He has been recognized by the New York City Bar as a 2014 Diversity and Inclusion Champion. He is the Director of the National Bar Association, Region 2, which represents diverse bar associations in Connecticut, New York and Vermont and is an immediate past Chair of the Intellectual Property Litigation Committee of the American Bar Association's Section of Litigation. He is a life member of the National Bar Association and the immediate past President of the Metropolitan Black Bar Association of New York City.

Considerations in the Use of Pre-Judgment Asset Freezes

By John A. Basinger and Jeremy Tor

The "nuclear weapon of the law"[1] is the Supreme Court's (adopted) description of the remedy of prejudgment asset freezes. They can serve a deterrent function by increasing the cost of trademark and copyright infringement or other claims involving equitable relief. They can "radically alter the balance" in favor of the plaintiff.[2] And they are sometimes the only way to ensure defendants pay *something* for their actions.

But a prospective plaintiff needs to consider a number of issues when considering whether a prejudgment asset freeze is available or whether it is worth seeking, even if available:

- Prejudgment asset freezes in federal courts are largely limited to those for equitable claims, rather than legal. In practice, this means that freezes are most frequently authorized in trademark and copyright infringement cases, though they can occasionally be used in other cases.
- A prospective plaintiff must consider whether the defendant has sufficient assets that can be reached for a freeze. It may be difficult to reach assets if the defendant makes limited use of payment processors and financial institutions in the U.S.
- Asset freezes are sought through temporary restraining orders and preliminary injunction proceedings and require a significant investment in legal services and company time up front.
- A plaintiff seeking an asset freeze must generally post security and may face liability if the freeze is later determined not to be justified.

In spite of these issues, when assets and a freeze are available the effects can be significant—and an asset freeze may be the only way to obtain a recovery.

Take as an example an asset freeze issued by a federal court last year in favor of Abercrombie & Fitch.[3] The company sued more than two dozen foreign businesses—known only by the websites they ran—under the Lanham Act for selling clothes and accessories bearing unauthorized Abercrombie & Fitch trademarks. The court granted an asset freeze two days after the complaint was filed, well before the defendants received notice of the lawsuit.

The court granted the asset freeze because there was "good reason" to believe the defendants would "hide or transfer their ill-gotten assets beyond the jurisdiction of this Court unless those assets are restrained." The court ordered a third-party payment processor based in the U.S. to freeze the accounts associated with the defendants and to transfer the funds to a holding account. The defendants never responded to the lawsuit and a default judgment was entered against them. Without the asset freeze, Abercrombie & Fitch likely would have recovered nothing—once the defendants caught wind of the lawsuit, they may have emptied their accounts and abandoned their web

Courts have long had the power to freeze assets. But asset freezes have become an accepted practice in trademark-infringement cases only in the past twenty years. The oldest published opinion on the matter dates from 1989.[4] In that case, Reebok sued a group of retailers for selling counterfeit Reebok shoes in Mexican border towns. The federal court granted an ex parte order freezing all of the defendants' assets in order to secure a final award.

This was before the heyday of the online counterfeiting industry. And that industry has made asset freezes all the more relevant—after all, an online retailer can pick up its virtual shop and empty its accounts almost instantaneously. Hence the trend in the past 10 years toward an increasing use of (or at least request for) asset freezes.

An asset freeze is powerful in part because it is backed by the court's contempt power. One who disobeys an asset freeze thus exposes himself to severe consequences, such as a fine or jail time. Some defendants—those overseas or who otherwise may be able to avoid the long arm of the U.S. courts—may not feel intimidated by such sanctions. But an additional strength of asset freezes lies in the ability to obtain the assistance of third parties holding assets of the defendant.

To earn the confidence of American consumers, as the Abercrombie & Fitch case illustrates, foreign e-commerce businesses may turn to reputable online companies and payment processors to help sell their merchandise. The U.S. headquarters and operations of many online retailers and payment processors may make their users' accounts subject to an asset freeze.

As for assets sitting in overseas accounts, the Supreme Court many years ago ruled that once personal jurisdiction of a party is obtained, the court has authority to freeze property under its control, regardless whether the property is located in the U.S. or abroad.[5] This includes assets held by a third-party bank. Thus, when Gucci

America, Inc., recently sued the owners and operators of a Chinese website for selling fake Gucci handbags, the court found it had authority to order—and did in fact order—an asset freeze of defendants' accounts at the Chinese headquarters of a bank with a branch in the U.S.[6]

An asset freeze directed at a nonparty may be ineffective if the nonparty is beyond the jurisdiction of the U.S. court when the court lacks a practical way to ensure that the nonparty complies with the order or is punished for disobeying it. In the Gucci case, the court ordered the defendant's bank to freeze assets abroad because the bank had a branch in New York (where the court was located).

A benefit of an asset freeze is that it is not subject to New York's "separate entity rule." According to that rule, each branch of a bank is a separate entity; accounts at one branch are considered separate from and unrelated to accounts at another branch. The rule applies only "for attachment purposes"[7] and not to equitable remedies, including asset freezes.[8]

An asset freeze has to be well timed to be effective. If the defendant receives notice of the lawsuit before an asset freeze is imposed, the defendant may have enough time to empty its financial accounts. A prospective plaintiff intending to sue a defendant at risk of dissipating assets—and actually recover something—must therefore move swiftly. From the plaintiff's perspective, the ideal sequence of events is to file an ex parte motion for an asset freeze at the same time it files the complaint.

But before filing suit, a would-be plaintiff may want to do some detective work in order to identify the online or bank accounts associated with the infringer—the better to maximize the pool of assets that can be frozen. In the Abercrombie & Fitch case, for example, the court subjected four different U.S. payment accounts to the asset freeze. In another recent case, a federal court froze three accounts linked to the counterfeiting defendants.[9] This detective work might require actual purchases, but it can pay dividends.

A court's authority to freeze assets derives from its inherent equitable powers. (Some courts have indicated that the Lanham Act provides an independent source of authority for asset freezes;[10] the Copyright Act, too, has been used to justify prejudgment asset freezes[11]). Although asset freezes are powerful tools—or rather, precisely *because* they are powerful tools—they come with limits. The first limitation is the circumstances in which they are available. An asset freeze may not be used to secure a future money judgment.[12] Rather, an asset freeze is only available to secure equitable relief,[13] as the purpose of a *provisional* equitable remedy is to secure *final* equitable remedy. While prejudgment asset freezes are available under certain circumstances in trademark-infringement and copyright-infringement suits, where equitable relief is ordinarily sought, this does not mean that they cover all potential damages.[14] A standard equitable remedy includes an accounting of profits. An accounting of profits is one of several remedies available under the Lanham Act, for example.[15] It is a remedy that entitles the plaintiff to the profits the defendant earned from selling the counterfeit merchandise.

There are additional limits on asset freezes. As with any type of preliminary injunctive relief, a plaintiff must prove that it is substantially likely to succeed on the merits, it has suffered immediate and irreparable harm, and the balance of hardships favors it. Courts that have issued asset freezes have found that the defendants are likely to hide or transfer their ill-gotten gains if their assets are not frozen.[16] Courts sometimes impose an additional requirement; they freeze assets only to the extent those assets could be used to satisfy an award for profits.[17] Thus, a court may "exempt any particular assets from the freeze on the ground that they [are] not linked to the profits" of the infringing activity.[18] Further, like all preliminary injunctions, a court may require security for a preliminary injunction that may turn out not to be justified, and the plaintiff must be prepared to have counsel available to justify the necessity for prejudgment attachment on 48 hours' notice or less.[19]

Asset freezes are an extraordinary remedy. They should not be the remedy of first resort. However, when there is a serious risk the infringer will frustrate a final judgment by dissipating its assets, an asset freeze may be the best tool available.

Endnotes

1. *Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 328 (1999) (quoting R. Ough & W. Flenley, The Mareva Injunction and Anton Piller Order: Practice and Precedents xi (2d ed. 1993)).
2. *Grupo Mexicano de Desarrollo*, 527 U.S. at 331.
3. *Abercrombie & Fitch Trading Co. v. 007Fashion.com*, 2013 U.S. Dist. LEXIS 23944, 2013 WL 654911 (S.D. Fla. Feb. 21, 2013).
4. *Reebok Int'l, Ltd. v. Marnatech Enterprises, Inc.*, 737 F. Supp. 1521 (S.D. Cal. 1989).
5. *United States v. First Nat'l City Bank*, 379 U.S. 378, 384 (1965).
6. *Gucci Am., Inc. v. Weixing Li*, 2011 U.S. Dist. LEXIS 97814, 10 (S.D.N.Y. Aug. 23, 2011).
7. *Allied Mar., Inc. v. Descatrade, SA*, 620 F.3d 70, 74 (2d Cir. 2010).
8. *Gucci Am.*, 2011 U.S. Dist. LEXIS 97814, 13 n.6.
9. *Magpul Industries Corp. v. Doe 1-10*, Case No. 4:14-cv-01556 (N.D. Ca. 2014 Apr. 15, 2014).
10. See 15 U.S.C. § 1116; *Reebok Int'l., Ltd. v. Marnatech Enterprises, Inc.*, 970 F. 2d 552, 558-59 (9th Cir. 1992).
11. *Sweet People Apparel, Inc. v. Fame of NY, Inc.*, Civ. No. 11-1666 (SRC) (D.N.J. 2011).
12. *Grupo Mexicano*, 527 U.S. 308.

13. *Reebok Int'l, Ltd. v. Marnatech Enterprises, Inc.*, 970 F. 2d 552 (9th Cir. 1992).
14. See *Klipsch Group, Inc. v. Big Box Store, Ltd.*, No. 12-CV-6283 (AJN) (S.D.N.Y. 2012).
15. 15 U.S.C. § 1117.
16. *Reebok Int'l, Ltd. v. Marnatech Enterprises, Inc.*, 970 F. 2d 552, 563 (9th Cir. 1992); *Abercrombie & Fitch*, 2013 U.S. Dist. LEXIS 23944.
17. *Gucci Am.*, 2011 U.S. Dist. LEXIS 97814, 11; *Balenciaga Am., Inc. v. Dollinger*, 2010 U.S. Dist. LEXIS 107733, 2010 WL 3952850, at *7 (S.D.N.Y. Oct. 8, 2010).
18. *Levi Strauss & Co. v. Sunrise Intern. Trading Inc.*, 51 F. 3d 982, 987 (11th Cir. 1995).
19. Fed. R. Civ. P. 65(b)(4) and (c).

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Ten Things Your Employment Lawyers Want to See (or Don't Want to See) When You Get an Employee Lawsuit

By Joel J. Greenwald

Employment law litigations are costly and time-consuming, however, actions can be taken to (a) prevent them and/or (b) create defenses to them. If you have an employee complaint, employment lawyers are going to want to see (or not see) the following:

1 For all cases, we want to see your employee handbook, containing a complaint procedure, and an acknowledgement form signed by the complaining employee saying they received it, knew they had to read it and abide by it. There's a defense to discrimination claims if the employee failed to utilize an existing complaint procedure. If the company first hears about the employee's issue through a court complaint, you should have the above in place.

2 For most cases, we want to see the complaining employee's hiring documentation—without comments suggesting discrimination such as "too old," "looks pregnant," "black." We do not want to see employment application questions that address protected categories. Asking for graduation years can suggest an age discrimination claim; "what language is spoken at home" could support national-origin discrimination; "are you taking medications, or do you frequently miss work due to being ill" all can support disability discrimination claims.

3 For cases claiming unpaid commissions, we want to see documents outlining how commissions are earned, how/when they are paid, what happens to unpaid commissions after an employee leaves, and any other details of commission payment as well as evidence that the complaining employee received and read the commission plan.

4 For disability leave related cases, we want to see written communication with the employee from the start of the leave seeking information from his or her doctor certifying the need for leave and its expected length, granting an amount of leave (potentially conditionally until documentation is received), and following up with the employee if/when documentation is not received.

5 For discrimination cases alleging bad actions by a manager, we want to see documentation of manager training on discrimination and harassment, along with the manager's signature on the handbook acknowledgement form. Companies may not be liable for managers who act outside the scope of their employment—but you need to be able to show that you told the manager what that scope was. Individual defendant managers who acted inappropriately can be advised to get separate counsel and distance from the company if actions appear to have been taken outside the scope of their employment.

6 For non-compete/breach of confidentiality cases where your company hired someone who worked for a competitor, we want to see that you reviewed the applicant's non-competition agreement before hiring them, were aware of any restrictions, and assigned the new employee to a position you did not believe would violate the agreement. We want to see that your confidentiality agreement advises employees not to use prior employers' confidential information.

7 For wage and hour cases, we want to see wage payment and timekeeping records, including pay stubs showing overtime wages and New York Wage Theft Prevention Act Notices.

8 For cases involving a reduction in force, we want to see documentation supporting the reason each employee was selected for layoff, along with a disparate impact analysis: did the selection method inadvertently target a protected group? For those targeted for "job elimination," we do not want to see that position filled in any short order.

9 For all terminations, we want to see documentation showing that the employee was given a real reason for the termination. While it is not necessary to give them the documentation (or even necessarily advisable), do tell your departing employees the truth. It does not have to be everything—but what is said must be accurate.

10 For any litigation where the employee's job performance will be an issue, we do not want to see performance reviews saying the employee's performance and/or production was "satisfactory" when it was far from it. Give employees honest reviews—or do not do them at all.

An ounce of prevention is truly worth a pound of cure in this arena. In consultation with your employment lawyer, you can train your managers to get it right and potentially avoid them taking improper workplace actions. You can also put in the policies and procedures you need to prevent employee lawsuits or have defenses in place should disgruntled employees try to take a stab at the company.

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Leveraging the Cloud in Litigation

By Natalie Sulimani

Leveraging cloud computing can be an asset to any business small or large. It is a cost-effective and secure way to ensure that your files are ready for access wherever you are or wherever your client is. This is also true of litigation. At the hint of litigation, it is the responsibility of the attorney to ensure that litigation holds are begun, and that data is not lost or deleted. Technology can go a long way in that respect.

It is amazing to think that in the beginning of my career in litigation, eDiscovery was in its infancy and has since progressed by leaps and bounds. I still shudder to recall the "war rooms" in which hundreds of boxes would scale the walls and document review was done utilizing color-coded sheets. (If this is still you, you need to read this article.) Not to mention the Excel spreadsheets that would sometimes crash my computer due to sheer size of the indices.

Now, I take great pride in a paperless office and utilizing cutting edge software that allows my team to review remotely as well as the security of knowing that I can cut off access to anyone at any time. I can also monitor who is in the software at any given time.

In this article, I want to discuss how corporate counsel or inside counsel can utilize technology to manage effectively (in both time and money) their litigation, outside counsel or even just employees.

Litigation, unfortunately, is inevitable, so being prepared can mean all the difference. Assessing your litigation hold practice is best before a problem arises. In fact, using proper protocols with your outside counsel can help reduce the risk of data breaches even before the threat of litigation.

Let's begin with the steps of discovery, and for this article, we will primarily discuss electronically stored information (ESI).

1. **Litigation Hold or Legal Hold.** This is the suspension of any data purges such as systematic deletion of backups, email deletions or any manipulation of data that can be relevant to the litigation and that may spoil the data. A litigation hold begins when litigation is reasonably anticipated. This is important. This does not mean receipt of a complaint, this means when the party reasonably anticipates they may be a party to a litigation. This, as you can imagine, is a moving target, so you should be cautious.
2. **Identify Key Personnel.** The next step would be to identify who in the organization would have information relevant to the litigation. It is important not to be too narrow in your assessment. Better to cast a wide net than not be prepared when the time comes. Sometimes this is a question of starting with the main personnel and running keywords to see who else was involved.
3. **Interview.** Once you have identified Key Personnel, you will need to interview them to identify potential locations of ESI. Here is where things may get a little tricky. Depending on the litigation, you may need to identify all social media, all modes of communications, *i.e.*, email, text, WhatsApp, any way they might communicate potentially relevant information and certainly the way they work. Is all work done on the company computer/laptop? Do they utilize personal devices to work? Do they ever use personal email for work? Not only are you asking them where pertinent documents may be, you are also trying to discern the AMOUNT of information. After all, eDiscovery obligations sometimes turn on how much information and the associated cost.
4. **Collections.** This is the step where you really have to be careful. It is easy to inadvertently spoil or compromise data. You compromise data when you change the file information such as the location, date, time, author, etc. Most people will instinctively want to "organize" their files so you can collect the data as quickly as possible. Tell them to fight the urge. Instead, your legal team should identify the potential pool of data and run searches. Overcollecting will be a waste of time and resources. You will need to ensure the integrity of the data. Here is where a collective server or the cloud can assist immensely. Depending on how many custodians, you may just image their drives for a forensic copy and then proceed with collection on a backup. Keep in mind, however, every time you copy a hard drive, it compromises the data no matter how careful your tech people are.
5. **Cooperation.** At this point, you know the universe of data. Your eDiscovery provider has probably begun some keyword searches to tell you how much data your team will need to process. It is also the time to meet and confer with opposing counsel to find out how much data is on the other side and where that data resides. You need to be able

to accept the multitude of formats being shared with you, because when you ask for documents you want native file formats, as well. Native files store the metadata, which is the underlying document information such as creation date, modification date, author, etc. Preserving this metadata is important in avoiding spoliation and possible court sanctions. Therefore, as an aside, it is important that when it comes to your own client that your ESI service provider is preserving your client's metadata from the beginning. Keywords will be discussed, as well. Keywords are a must in culling the amount of information. You want to ensure that you are asking for enough while not being overinclusive to the point of wasting time and resources.

6. **Review.** After all the documents are collected. They should be organized by custodian and reviewed for relevancy. You will have your team check for relevancy to the agreed document production and relevancy to prove your case. Given the amount of software utilized in eDiscovery, it is useful to come up with saved searches to help you narrow down the universe of documents. While "papering" your opponent was a tactic in the past, it can now be construed as overly burdensome to the opponent and even have the effect of your bearing the costs for not reviewing your production for relevancy. You will also do a more upper-level review for privilege. eDiscovery software has algorithms that will scan the production for potential privilege, which will then be reviewed by your team for actual privilege. It is another layer to ensure that nothing slips through.

7. **Production.** This step includes taking the relevant documents, coding them with a Bates stamp and sending them over to opposing counsel or for a third-party production. You do include privileged documents in the Bates stamp but, obviously, those are not produced. You will, within the amount of time decided between the parties, produce a privilege log that sets out the documents withheld due to privilege.

8. **Evidence.** Utilizing the coded, relevant documents for depositions and trials. One repository of all those documents in the cloud means easy access for the entire litigation team. Gone are the days when you need your assistant to email relevant documents to you during a trial.

Now that I have, briefly, outlined the steps to discovery, here is an overview of cloud computing because to have a defensible eDiscovery strategy, you need to understand how things work in the cloud. Gone are the days where attorneys can be ignorant of technology, because at this point, it would be considered malpractice.

Cloud computing is, simply put, storing data over the Internet where the data resides on one or more remote servers. Examples of the cloud include third-party email providers, such as the ubiquitous DropBox, Google Drive, etc. While the idea of cloud computing may seem foreign to some or a fad to others, the fact is that almost everyone uses the cloud in some way, and especially in business, cloud computing is here to stay. Eventually, maybe sooner than you think, computers will be mere conduits to remote servers, and no one will be storing data locally. Where once there were grain silos dotting the landscape, soon there will be vast server farms storing the world's data. That's right, you heard it here first.

Let me tell you why storing data, reviewing data and basically controlling all of your eDiscovery in the cloud is how you want to do it.

Contrary to popular belief, you do have control over your data even if it's offsite, and in fact, with the cloud, you have more control. Don't believe me? Read on. Like anything else, do your homework, understand how it works and proceed accordingly.

Your first step to eDiscovery is a data map of where your data resides. It is a conversation that inside counsel has with their IT department as well as outside counsel. I would go so far as to say it is imperative to have this talk with your outside counsel because if they can't match you technologically, it's a relationship you will need to reconsider. Law firms are being targeted and hacked more frequently. Why? Lawyers are slow to advance with technology. Are you reading this article on your Windows XP computer? Perhaps you are reading a hard copy without any idea of what computer it came from. Enough said.

A data map shows a flow of where your data starts and ends. It identifies where you need to look for information, and it identifies potential security risks. A conversation with your key employees will help you identify this. It will also help you decide whether your employee handbooks or protocols are being followed. For instance, your BYOD (bring your own device) policy may be helping you save money by lowering overhead, but what will it do for your eDiscovery process? How invasive is the process if you need to start culling corporate data from personal data? Moreover, how do you know who has access to your corporate data when your employee's device is not at the office? When it comes to data storage and control of your data, it is better to not be penny wise and pound foolish.

In contrast to this, if your employees work from the cloud, *i.e.*, a centralized location where you can control the data flow, it will reduce the places that you will need to

go to collect data. It reduces redundancy and ensures that data isn't "floating" around. At any given moment, you are able to take a snapshot of your company's data. You will also be able to restrict access in the case of employee terminations or in the event of a lost device. Many cloud providers have a remote wipe feature where at the touch of a button, all data is removed from a device. Now that is what I call control.

Taking a closer look at the steps of discovery, imagine the process if your company works in the cloud, or maybe your eDiscovery is completely in the cloud. Collection would be a matter of accessing the key employee's allotted server, or even a keyword search of the company-wide data. Keyword search of relevant terms would be done remotely without the need to interrupt your employees. Of course, they would be notified that it is being done. The data would then be transferred via the Internet directly into the eDiscovery platform. In working with the cloud provider, you would alert them to the litigation hold and have them suspend backups or ask for an image of the server at the start of the litigation hold. You would then have a forensic copy of the data without the data exchanging hands. Chain of custody issue resolved.

Again, you will now have a clear record of transfer of files, metadata intact and organized by key employees. Less than two decades ago, boxes of documents were shipped via FedEx to get scanned, coded and printed out again. We then moved to shipping hard drives to sending over thumb drives. Now, with the click of a button, data transfers instantly and the likelihood of human error decreases dramatically. Your job in the process is to ensure that the eDiscovery or cloud vendor you choose is using the best technology and employs the best practices because that is part of your professional responsibility. You must also keep abreast of technology and its potential pitfalls. You control the flow and control the access. Once the litigation is done, successfully of course, access is terminated immediately, and you can begin the task, internally, of storing the documents.

Consider best practices when choosing a provider:

1. Ensure that the online storage has an enforceable obligation to preserve confidentiality and will notify you of a subpoena;
2. Investigate the online storage's security measures, policies, recoverability methods and other procedures;
3. Ensure that the online storage provider has available technology to guard against breaches;
4. Investigate the storage provider's ability to wipe data and transfer data to the attorney should you decide to sever the relationship.

Read the Terms of Service and, when you can, negotiate with the cloud vendor. Cloud vendors update their policies and may be willing to change their practices to the needs of their (and your) clients. If you have concerns and/or specific needs, contact them, and if they are unwilling to change their practices, go somewhere else. Frankly, there are too many online storage providers to not be discerning, or negligent, when it comes to client data.

While utilizing an online storage provider, consider their encryption practices. Will your data be stored encrypted? Will you encrypt the data en route to the online storage and who has access while it is being stored? Also, if the online storage provides access on mobile devices, just like you would your computer, laptop, tablet and mobile phone, add security by password protecting the online storage's mobile app. After all, just as in the non-cyber world, a big threat to effective storage is human error. Therefore, it is of utmost importance that you know how to remotely wipe the data if your device is lost, stolen or has remained in the possession of an ex-employee. One aspect of mobile storage to be aware of is that when you download client data to your mobile device, it may be downloaded to your SD card unencrypted. Whether you want this situation is something to consider and take steps to avoid it if so desired. This aspect is an example of the importance of understanding how the technology works; understanding where problems, such as interception, may occur; and ultimately how to take steps to avoid them. Education is key here.

In short, the advantages of cloud computing as outlined in this article make it a perfect complement to an effective and successful litigation and relationship with outside counsel. Rather than running away from or turning a blind to this new technology, it would be better to embrace it by learning more and making wise decisions that will minimize potential pitfalls down the road, while at the same time increasing the ease and usefulness of communication and interaction.

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Potential Impact of Recent Supreme Court Decisions on Access to Attorney Fees

By Gabriel J. McCool

Introduction

No matter where your business happens to fall on the company life cycle spectrum, e.g., a seed, start-up, growth, mature, or exit stage business, and in particular, where your company operates in a technology market, chances are good that at some point your business may face the possibility of a patent litigation, either as a party asserting its patent rights or as a party defending against a patent infringement challenge by another patent owner. The asserting party is often a competitor; however, increasingly many patent litigation suits are being asserted by non-practicing entities (NPEs) or patent assertion entities (PAEs), which often seek to enforce patents through licensing or litigation strategies—perhaps unfairly, as regarded by many—without actually commercializing their patent assets as a strategic revenue model. Many consider such practices to be harmful to the economy, and there have been legislative efforts, some now abandoned, to curb these activities.[1]

Given the substantial costs of patent litigation, it is crucial that companies have competent counsel at their disposal who are effective in managing and succeeding in litigation in a cost-sensitive manner. Counsel must stay apprised of major judicial and/or legislative developments in the ever-changing patent legal landscape. Appropriate adjustments to litigation strategies in response to significant changes in the legal landscape may be necessary in order to minimize costs and maximize the chance for success. Counsel must be able to recognize these changes and when they require strategic adjustments.

One such significant change took place in April this year. With its pair of complementary decisions handed down in *Octane Fitness, LLC v. Icon Health & Fitness* and *Highmark, Inc. v. Allcare Health Management System, Inc.*, the Supreme Court significantly changed an aspect of patent litigation referred to as "fee shifting." Under 35 U.S.C. § 285 ("Section 285"), a district court has the discretionary power to award attorney fees to a litigant in cases found to be "exceptional." Prior to *Octane*, the Federal Circuit established a "bright-line" standard in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*[2] to determine which cases were "exceptional," and, thus, which warranted attorney fee awards. The Supreme Court threw out this standard in favor of a significantly more flexible rule that allows district courts to use their discretion based on the particular circumstances at issue to determine the "exceptionality" of a case. The *Octane* ruling also increased the difficulty in challenging fee award decisions on appeal by lowering the standard of review from *de novo* to an abuse of discretion, thereby favoring those parties who succeed at the trial court level in winning fees under Section 285.

The aims of this article are (a) to provide the reader with a clear understanding of the *Octane* decision and the new test for Section 285 attorney fees, (b) to get a glimpse as to how the trial courts have applied the new test since *Octane*, and (c) to provide recommendations to counsel as to several "best practices" relating to seeking and/or defending Section 285 attorney fees.

Section 285 and the *Brooks Furniture* Test

Section 285 of the Patent Act provides in its entirety that "[t]he court in *exceptional cases* may award reasonable attorney fees to the prevailing party."[3] Prior to the Federal Circuit's 2005 ruling in *Brooks Furniture*, district courts applied Section 285 in a discretionary manner based on an assessment of a multitude of factors involving the particular circumstances of the case to determine whether a litigation was sufficiently "exceptional" to justify awarding a fee shift to the prevailing party. The Federal Circuit changed this flexible approach by instituting a rigid standard in *Brooks Furniture* for determining that a case is "exceptional" under Section 285 only "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions."[4] *Brooks Furniture* also held that absent such misconduct, an "exceptional" case under Section 285 can be found if (1) the litigation was brought in "subjective bad faith," and (2) the litigation was "objectively baseless."[5] Thus, the prior test established that exceptional cases deserving of fee shifting were based either on litigation-related misconduct or where the litigation was brought in subjective bad faith and was objectively baseless. The Federal Circuit in later rulings further defined "objectively baseless" as litigation that is "so unreasonable that no reasonable litigant could believe it would succeed" and clarified that litigation brought in "subjective bad faith" required that the plaintiff actually knows that it is objectively baseless.[6]

In the decade since *Brooks Furniture*, these highly rigid requirements made it next to impossible for a pre-

vailing party to recover attorney fees under Section 285 because parties were often unable to meet the stringent two-pronged test, or the case did not involve the specifically indicated litigation-related misconduct (e.g., willful infringement). This problem was compounded by the fact that *Brooks Furniture* further required that exceptionality be proven by clear and convincing evidence. Frustration by litigants over these rigid hurdles and high evidentiary threshold for recovering attorney fees has only been increased as the number of litigations brought by NPEs has increased over the past decade.[7] This was all substantially altered by the Supreme Court under *Octane*, which threw out the *Brooks Furniture* test, replacing it with a new test that significantly lowered the bar for awarding attorney fees and scaled back the evidentiary burden.

Octane's Relaxed New Standard for Fee Shifting

Both parties in *Octane* were manufacturers of exercise equipment. Icon, the owner of U.S. Patent No. 6,019,710 ("the '710 patent") covering an elliptical exercise machine, sued Octane for patent infringement based on Octane's manufacture of its own line of similar elliptical exercise machines. The district court granted Octane's motion for summary judgment, agreeing that its machines did not infringe the '710 patent. Octane then filed a motion under Section 285 to recover reasonable attorney fees associated with the litigation. The district court denied Octane's motion based on its application of the *Brooks Furniture* standard, holding that Octane failed to demonstrate that Icon's claim was "objectively baseless" or that it was brought in "subjective bad faith." The court rejected Octane's argument that emails among Icon's sales staff discussing a desire to bring a lawsuit against Octane as a strategic maneuver despite that Icon did not sell a machine covered by its own patent did not sufficiently show the litigation was brought in "subjective bad faith." The court also rejected Octane's argument that the litigation was frivolous or "objectively baseless" based on the contention that non-infringement would have been readily apparent by visually inspecting Octane's machine. Octane appealed to the Federal Circuit, which upheld the denial of the Section 285 attorney fees.

The Supreme Court reversed the Federal Circuit's ruling, holding that "the framework established by the Federal Circuit in *Brooks Furniture* is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts."[8] The Court remarked that the statute imposed only a single constraint of the discretion of the district courts, namely, that the discretionary power is reserved for only those cases which are "exceptional." Since the statute does not define the meaning of "exceptional," the Court looked to the term's ordinary meaning, holding "that an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances."[9]

The Supreme Court also rejected the evidentiary standard set forth in *Brooks Furniture* requiring litigants to show exceptionality by clear and convincing evidence. The Court held that "Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one."[10] Instead, the Court ruled that the appropriate evidentiary standard was a preponderance of the evidence, recognizing that this lower bar was generally applicable in most patent infringement litigation.

Thus, the *Octane* ruling completely dismantled the restrictive *Brooks Furniture* test in favor of a new standard, which substantially lowered the bar and evidentiary burden for establishing entitlement to attorney fees under Section 285.

Highmark Decision Keeps Discretionary Authority with the District Court

The Court's companion decision in *Highmark* ruled that appellate review by the Federal Circuit should be restricted to abuse of discretion, not *de novo* review, thereby insulating somewhat district court rulings on attorney fee shifts. In the case, Allcare brought an infringement action against insurance company Highmark involving its patent covering "utilization review" in "managed health care systems."[11] After the district court entered a final judgment that Highmark did not infringe Allcare's patent, Highmark moved for attorney fees under Section 285. The district court ruled in favor of Highmark, holding that Allcare's actions showed it "engaged in a pattern of 'vexatious' and 'deceitful' conduct throughout the litigation."[12] On appeal, the Federal Circuit reversed the finding with respect to certain claims after *de novo* review and without deference to the lower court.

The Supreme Court reversed, holding that its *Octane* ruling settled the case. The Court reasoned that "[b]ecause §285 commits the determination whether a case is 'exceptional' to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion." In other words, the Court held that an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's §285 determination. Although questions of law may in some cases be relevant to the §285 inquiry, that inquiry generally is, at heart, "rooted in factual determinations."[13] As a conse-

quence, the discretionary authority for establishing fee shifting under Section 285 effectively stays with the trial courts, being only challengeable on appeal for an abuse of discretion.

Practical Impact of *Octane* and *Highmark*

The *Octane* and *Highmark* decisions are significant as they dramatically change the calculus of how attorney fees are awarded. While the full impact of the decisions will take time to measure, some initial observations can be made.

The first obvious impact will be felt by prevailing litigants seeking to recover their attorney costs for having to contend with litigation tactics by the opposing party which are perceived as unfair or unjust. With *Octane's* lower threshold for showing exceptionality, litigants will find it easier to seek and obtain Section 285 attorney fees. In addition, litigants will likely feel more willing to invest time and resources in seeking Section 285 fees given the lower threshold to do so, and in view of the reduced chance for reversal on appeal under the *Highmark* ruling.

Another impact will likely be on patent owners, who will now need to give careful consideration when seeking to assert potentially weak patents. This is perceived to be particularly true for NPEs, which are criticized by some for their litigation and licensing tactics. The greater ease for litigants sued by NPEs in obtaining Section 285 fee awards under the *Octane* and *Highmark* rulings is perceived by many to have a significant deterring effect on suits brought or litigated in less than good faith. Moreover, a Section 285 fee request will put the non-prevailing party's litigation conduct under the microscope. The potential for the court to call out litigation misconduct and expose attorneys to potential malpractice claims may help to induce fair play by all parties.

The dual rulings in *Octane* and *Highmark* may also have the effect of instilling confidence in alleged infringer who, prior to the rulings, may have felt compelled simply to settle litigations early on at more affordable costs. Such litigants, who feel they have been perhaps targeted by frivolous patent litigation, may now feel bolstered to litigate a full defense given the increased likelihood that, should they prevail and be able to show litigation was exceptional under the statute, they will be able to recover their attorney fees. However, litigants should stay apprised as to the trends of how courts are awarding fees under the new standard.

The rulings may also have an impact on the judicial system itself. In particular, *Highmark* effectively empowers the district courts with the sole discretionary authority to preside over whether to award fee shifting under Section 285 because *Highmark* reduces the standard of appellate review by the Federal Circuit from *de novo* review to an abuse of discretion standard. As a result, the Federal Circuit will likely only on occasion reverse trial courts' fee-shifting determinations. Thus, district courts will likely be more willing to invest resources into fee-shifting determinations knowing that their decisions will likely stand on appeal.

The *Octane* and *Highmark* rulings may also impact pending legislative proposals to curb purportedly "abusive" patent litigation practice by NPEs. However, at least one such proposal, Senator Leahy's Patent Transparency and Improvements Act (S. 1720) was removed from the Senate Judiciary Committee's agenda on May 21, 2014. A similar bill sponsored by Rep. Goodlatte was passed by the House on December 5, 2013 and remains pending.[14] For the near term, the *Octane* and *Highmark* rulings may sufficiently achieve the same objectives as the legislative proposals. Legislative solutions may, however, still be necessary to fully curb perceived abusive litigation practices, for example, by having provisions that require litigants to set aside attorney fee costs in escrow to help insure against a Section 285 award not being paid.

While it is too early to know the full impact of the *Octane* and *Highmark* rulings, we can get a glimpse of how the courts now are awarding fees under the new standard by looking briefly at a recent fee-shifting decision.

The district court in *Lumen View Technology, LLC v. Findthebest.com, Inc.* granted attorney fees under Section 285 to defendant Findthebest.com, Inc. ("FTB"), characterizing the case as "a prototypical exceptional case."[15] As described by the court, FTB operates a website service relating to matching consumers with desired commercial products, known as "AssistMe." The court states that Lumen "is a patent holding 'Non Practicing Entity' that acquires patents and instigates patent infringement lawsuits. Lumen appears to be a shell company that is one of a number of related companies involved in litigating patent infringement suits."[16] Lumen sued FTB for infringement of U.S. Patent No. 8,069,073 ("the '073 patent").

As the court laid out in its ruling, Lumen engaged FTB in numerous pre-suit cease and desist letters and discussions alerting FTB of its purported infringement by AssistMe and threatening "expensive litigation" if "FTB did not quickly agree to a settlement." During these discussions, FTB repeatedly explained that its AssistMe service does not infringe because it does not "use a bilateral or multilateral preference matching process," as required by the claims of the patent. Lumen proceeded with the lawsuit nevertheless.

The court agreed with FTB, holding that "FTB does not employ bilateral preference matching," as required by the claims, and that "the most basic pre-suit inves-

tigation would have revealed this fact." On this basis, the court ruled that Lumen's lawsuit against FTB was "frivolous" and "objectively unreasonable" because "no reasonable litigant could have expected success on the merits in Lumen's patent infringement lawsuit against FTB because the '073 Patent claimed a bilateral matchmaking process requiring multiple parties to input preference information, while FTB's "AssistMe" feature utilizes the preference data of only one party." The court determined that Lumen was manifestly unreasonable in assessing infringement, even though it continued to assert infringement, which the court held constituted an inference of bad faith. The court also looked to Lumen's underlying motivation for bringing the lawsuit, holding that "Lumen's motivation in this litigation was to extract a nuisance settlement from FTB on the theory that FTB would rather pay an unjustified license fee than bear the costs of the threatened expensive litigation." The court also looked to "the boilerplate nature of Lumen's complaint, the absence of any reasonable pre-suit investigation, and the number of substantially similar lawsuits filed within a short time frame," suggesting to the court that Lumen's litigation was baseless and not isolated to this instance, and that this case reflected "a predatory strategy aimed at reaping financial advantage from the inability or unwillingness of defendants to engage in litigation against even frivolous patent lawsuits." Based on this analysis, the court found the case "exceptional" under Section 285 and awarded fees.

Conclusion and Best Practices

The *Octane* and *Highmark* Supreme Court rulings significantly changed the patent litigation legal landscape by making it substantially easier to obtain attorney fees under Section 285 and to keep intact such awards on appeal. The eventual effect of the decisions, however, remains to be seen and should be watched closely. While the rulings will likely have an impact on NPEs, the *Octane* and *Highmark* decisions extend past NPEs, applying to all litigants, whether plaintiff or defendant. As Section 285 challenges bring litigation conduct into the spotlight, all litigants—including NPEs—will need to give careful consideration as to their litigation strategies and tactics. In particular, it will be important for prospective plaintiffs to conduct thorough and sufficient pre-litigation investigations to establish a good faith belief of infringement and to develop a reasonable infringement theory prior to filing a patent infringement lawsuit. Businesses may also wish to consider protecting themselves against patent infringement lawsuits, and, in particular, the possibility of having to pay attorney fees under Section 285, by investing in an intellectual property insurance policy. You should ensure that the policy covers potential Section 285 awards. In addition, you may need to conduct due diligence to demonstrate that your product(s) has freedom to operate as a condition of the policy. Such due diligence investigations should be performed, too, upon launching any new product or service in the market to understand whether any patents may exist that could potentially lead to infringement claims. If a patent infringement litigation is brought against your company, careful evaluation should be made as to the strength and/or reasonableness of the plaintiff's infringement position in order to weigh litigation options, including the possibility of settlement. One should also try to identify whether the asserting party is an NPE. With the increased availability of attorney fees under Section 285, litigants—particularly those litigants who feel targeted by frivolous or baseless claims—should no longer feel as though a settlement or license is necessarily the only option.

Endnotes

1. The New York Times, "Legislation to Protect Against 'Patent Trolls' Is Shelved," May 21, 2014.
2. 393 F. 3d 1378 (Fed. Cir. 2005).
3. 35 U.S.C. §285.
4. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F. 3d 1378, 1381 (Fed. Cir. 2005).
5. *Id.*
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Business Alternative Dispute Resolution (ADR) Provides Fast, Fair, Flexible, Expert, Economical, Private, Customized Justice

By David J. Abeshouse

I. Introduction

Several years ago, I attended a gathering in Manhattan of nearly 100 business neutrals—commercial arbitrators and mediators. One of the presenters asked the assemblage to describe succinctly the basics of ADR (Alternative Dispute Resolution). I raised my hand, eventually was called on and out spouted this torrent of words: "ADR provides fast, fair, flexible, expert, economical, private, customized justice." The crowd reacted favorably, I was asked to repeat it so that others could jot it down, and, so, the title of today's article was born.

ADR (also referred to increasingly as "Appropriate" Dispute Resolution) encompasses several non-court processes, the best known of which are arbitration and mediation. Many myths and misconceptions about both abound, even among lawyers, some of whom are unfamiliar with the profound distinctions between these two very different forms of dispute resolution. The transactional lawyers who draft business agreements often lack direct experience in dispute resolution, which usually relegates them to mechanically re-using clauses from the past, which may or may not have worked well in those circumstances but clearly are not tailored to the present contract. So summarizing the differences between arbitration and mediation, and occasionally contrasting them with the more familiar court litigation, should forge a good starting point.

(a) Business/Commercial Arbitration

Arbitration (here we address private, not court-annexed, arbitration) essentially is a more streamlined form of litigation, typically conducted in a conference room in a law firm, business party's office, hotel or private club. The arbitrator hears evidence and renders a binding, enforceable award. Federal and state court procedural and evidentiary rules do not apply unless specifically invoked; instead, the applicable arbitral rules, usually promulgated by the governing forum, are designed to expedite the process and afford the parties, their counsel, and the arbitrator(s) more control over how the matter proceeds. (Examples of commercial arbitration rules can be found on the websites of the ADR forums/providers mentioned in the conclusion of this article.) Control over the process can be accomplished in the first instance by including a customized ADR clause in the parties' underlying agreement (rather than the tired, old "standard" clause of two or three bare sentences, use of which squanders the opportunity to guide strategically the future course of any dispute arising out of that agreement).

In the absence of an existing contractual clause, enlightened parties can agree, after the dispute has arisen, to submit it to arbitration by executing a simple submission agreement (a/k/a consent to arbitration); however, it generally is better to put a process in place during the parties' contractual "honeymoon" phase than to try to arrange it once the parties have asserted their enmity. The confluence of the contractual provision, the governing arbitral rules and the participants' input charts the course of the proceeding, which is flexible and party driven.

(b) Business/Commercial Mediation

Mediation, at least in the commercial or business arena, is a settlement negotiation facilitated by a neutral trained in techniques geared to get the parties to "yes." Parties and lawyers can use mediation either before or while the parties are engaged in litigation or arbitration. It also occasionally surfaces in the context of putting together a deal between or among non-disputing parties seeking to work together (*i.e.*, "deal mediation"). We address here mediation principally as a business dispute resolution modality.

What happens in mediation? The full answer is more properly the topic of a separate, longer article or book; but for present purposes suffice it to say that the parties, their counsel and the mediator convene in settlement mode, and the mediator listens to both sides' offerings. It is more of a conversation than an interrogation. Mediators apply numerous techniques to help bring the parties together. Many mediators use the caucus, or private meeting, to elicit information—held in confidence absent express permission to reveal—that can help the mediator to assist the parties in achieving resolution of their dispute. Other mediators prefer to keep the parties in joint general session at all times, reasoning that only in this way can the parties effectively hear each other and the mediator maintain the utmost neutrality.

Most commercial mediators are "facilitative" in nature, whereas some are more "evaluative," either suggesting or opining outright regarding how (and at what dollar figure) the case should settle. Some combine elements of

both (as well as other approaches, such as "transformative" mediation techniques). Mediators add value to the settlement process by, among other things, changing the usual two-sided dynamic, and suggesting creative solutions (based on experience and training) that the parties themselves may not have conjured up.

From that quick foundation, we now examine the characteristics of ADR that might make it suitable for use by clients through inclusion in their business agreements.

II. Fast

(a) Arbitration

Business arbitration usually goes significantly faster than court litigation. Although exceptions occur, statistically cases of similar levels of complexity traveling through the New York State courts and the private processes of the main domestic arbitral forums reflect arbitration durations of between one-third and one-quarter those of litigation. Also, past complaints that arbitrators were more reluctant than courts to grant dispositive motions have been met recently with amendments to arbitration rules encouraging appropriate use of dispositive motions, which has leveled that playing field and neutralized the criticism.

Moreover, the actual time devoted to testimony and argument at trial (typically 3 to 4 hours of active trial time per court day) compares unfavorably with that at arbitration (flexibly, depending on the preferences of arbitrators and parties, from 6 to 10+ hours of active testimony and argument per day). So multi-day hearings in particular can be efficiently attenuated via arbitration, where, for example, a 5-day trial could be heard in a 2 or 3-day arbitration hearing. This is a great boon to all, especially parties conducting hearings in distant cities, as it abbreviates travel. And beyond the math, arbitration also streamlines the processes by eliminating some of the more time-consuming and less useful aspects of court litigation such as excessive discovery and repetitive or otherwise unnecessary motion practice. Most businesses cannot risk the uncertainty inherent in having a significant case languish in court for several years, so the more expeditious arbitration process is preferable in this regard.

(b) Mediation

Business mediation usually is faster than court litigation or even arbitration. Whether the mediation commences instead of arbitration or court litigation, or during it, mediations usually take between one and four months from start to finish, and many are completed with just one in-person session. Shorter duration = fewer billable hours expended (= fractional cost relative to adversarial proceedings).

III. Fair

(a) Arbitration

Commercial arbitration is fair, incorporating essentially all of the procedural safeguards of court litigation: due process, designated rules, standards of adjudicator training and conduct, and even review of decisions. Awards may be reviewed either through the courts based on federal (Federal Arbitration Act) or state (e.g., NY CPLR Article 75) statutory standards and the interpretive decisional law thereunder, or optionally—if contractually provided—through expedited arbitral review (appellate) panels that some forums recently have instituted. For many reasons, not the least of which is that widespread use of arbitration helps relieve overburdened court dockets, federal and most state courts strongly favor arbitration, with the vast bulk of case decisions upholding arbitral awards and supporting broad interpretation of the arbitrability of cases.

(b) Mediation

Commercial mediation is fair because the parties themselves determine the outcome, assisted by counsel and the mediator. Although the process is flexible, there are rules and standards. A party is not compelled to settle through mediation; it is a consensual act. No one other than the parties commits them to a particular result. And if they choose not to resolve the dispute through mediation, they can resort to the binding dispute resolution options such as court litigation or arbitration and delegate responsibility for the eventual outcome to a neutral decider.

IV. Flexible

(a) Arbitration

Business arbitration is flexible; the parties are free, almost without limit, but within the bounds of legal reason, to determine the outlines and particulars of their proceeding by including an arbitration clause in their agreement that sets out how they want the matter to proceed. Several examples distinguish the flexibility of arbitration from the more one-size-fits-all nature of court litigation—in your arbitration clause, you can: (i) select the forum of the proceeding (*e.g.*, American Arbitration Association, JAMS, CPR); (ii) decide which set of rules applies; (iii) determine the breadth or limitation of scope of the arbitration clause—in other words, what is covered by the clause and what is not (*e.g.*, relegating very low-dollar claims to be heard in small claims court); (iv) designate whether one or three arbitrators will constitute the panel; (v) mandate general or specific educational or experiential credentials of the arbitrators to qualify to serve, to ensure expertise of the panel; (vi) designate the venue or locale of the hearing as well as the applicable governing

law; (vii) create a "stepped" clause (*see* section VIII(b), below) incorporating ratcheted levels of resolution efforts such as negotiation and mediation as conditions precedent to arbitration, with stated criteria for moving from one phase to the next; (viii) set some general or specific limits on discovery (here, it is usually advisable to tread lightly, leaving flexible interpretation of stated principles to the arbitration panel, or risk infecting the entire proceeding); (ix) allow in smaller cases for a documents-only evidentiary hearing or a telephonic hearing; (x) permit witness affidavits in lieu of direct testimony so long as the witness appears for cross-examination; (xi) provide that a failure of a party to pay its share of deposits may result in specified sanctions; (xii) direct that the form of the award issued by the arbitrator be either a bare, standard award or a fully reasoned award; (xiii) dictate whether the arbitration panel has discretion to apportion costs and expenses, and/or award prevailing party attorneys' fees; (xiv) invoke arbitral appellate review; and (xv) provide many other options for the proceeding. Note that for enforcement purposes, an arbitration clause always should provide that judgment on the award rendered may be entered in any court having jurisdiction.

(b) Mediation

Business mediation similarly is flexible for all the same reasons as arbitration, plus there are fewer rules to follow in the proceeding itself. There are no evidentiary strictures to which the parties must adhere; sometimes "venting" can help to move the matter along. Ironically, parties obtain their "day in court"—the opportunity to have their stories heard—better in mediation than they do in court litigation. The mediator, the parties, and their counsel are free to determine how they will proceed, and can change the process "on the fly," so long as they maintain standards. For example, some mediations start with separate *ex parte* conference calls with the mediator, whereas others have all sides on the phone together. Similarly, in many commercial mediations the parties submit pre-mediation statements and supporting documents to the mediator before the first in-person session to inform the mediator of the relevant facts, law and settlement positions of the parties. The participants can agree that these pre-mediation statements will be exchanged between the parties or will be private or will be hybrid—partly exchanged and partly private. Another example of mediation flexibility is that whether or not to break out into a private caucus might be decided on the spot, without advance notice, based on how the discussion has developed to that point. A mediation also might include a site visit, a video or online demonstration, provision of information from someone not directly involved in the matter but who need not be qualified formally as an expert witness, or a welter of other possibilities that might be helpful to the process. The creative results that mediation can produce go far beyond those of court litigation or arbitration, where the boundaries are delineated by the rules.

V. Expert

(a) Arbitration

Commercial arbitration affords expert resolution of disputes because the parties have the opportunity—both in drafting the governing contractual clause and often in the initial administrative conference call with the case manager of the arbitration forum—to have a say about what the qualifications of the panelist(s) will be. One might require that the members of a tripartite panel include a lawyer with at least 15 years of commercial litigation experience; a CPA with similar years of audit or fraud or tax experience; and an industry business person with decades of ownership or senior management experience in the garment industry, the oil and gas business or financial services. Parties could seek a French-speaking sole arbitrator with both intellectual property and commercial litigation experience at large- or medium-sized law firms or corporate in-house law departments. Although the possibilities are wide open, it is advisable to avoid excessive specificity or risk rendering the clause less susceptible of performance.

In the ordinary course, once the forum has considered the parties' preferences, they will be provided with the resumes of prospective arbitrators from among whom they may select their choices through the "strike and rank" method. Factors to consider here include the arbitrator's substantive business or legal area experience, presence of a meaningful track record of service as an arbitrator, and the level of arbitrator training. Does the arbitrator's resume reflect substantial and continuing involvement in training over a number of years? Does it reflect that s(he) has conducted numerous arbitrations in the past, as a neutral? Do the substantive areas of the prospective arbitrator's business or legal experience match well with the nature of the matter at hand? What is the arbitrator's reputation for personality, patience, punctuality, proactivity, and other performance criteria? Engaging in this sort of basic pre-selection analysis helps parties reap the benefits of being able to select the adjudicator (disfavored as "judge shopping" in the court system).

(b) Mediation

Commercial mediation applies expertise in both the subject area of the controversy and also mediation itself. So parties and counsel considering engaging a mediator will look to the prospect's background in the substantive area(s) of the case as well as in mediation.

Training is key. The 40-hour mediation certification courses are just the beginning. It is widely accepted that it takes most mediators hundreds of hours of training and several years of mediating experience to develop substantial expertise as a mediator.

VI. Economical

(a) Arbitration

Business arbitration is economical because—as noted earlier—shorter duration and lesser expenditure of hours necessarily yields lower costs, even after adding in the costs of arbitration. The cost of the arbitrator is subsumed by the savings from the fractional duration of the entire process. This becomes particularly clear when considering that the number of hours an arbitrator typically spends on a given matter is a very small proportion of the time that the lawyers representing each party spend on the case because, for example, it takes far greater expenditure of time to create and assemble documents and deal with clients than it does to read those documents. (A fair generalization would be that other than in small, simple cases, the arbitrator might spend one-tenth the time on the case that the lawyer(s) representing each side would spend). Usually, all parties split the costs of arbitration.

With a three-arbitrator panel, the arbitral costs will increase, but need not triple, as the Chair of the panel can deal exclusively with preliminary matters such as discovery issues, and given the special expertise of some neutral arbitrators (*e.g.*, a CPA with a Certified Fraud Examiner or Business Valuator certification, or someone with specific industry expertise), costs for expert witnesses may be eliminated. Three-arbitrator panels should be reserved for large and complex cases, particularly those where having three adjudicators with disparate areas of expertise will be helpful. (The old method of each side selecting an arbitrator, two of whom in turn together select the neutral chair of the tripartite panel, generally has become disfavored.) Regardless of the number of arbitrators on the panel, counsel never will waste several hours—as they might on several occasions during the course of a court case—sitting while waiting for the case to be called on the calendar, often to have it adjourned to another date, both of which instances get billed to the client. Arbitration is individualized justice, not mass justice, and that results in many often overlooked areas of economic savings.

(b) Mediation

Business mediation is economical because it is even more expeditious than arbitration, and with far fewer hours billed by counsel and mediator, the cost savings relative to court litigation and even arbitration can be, and usually are, immense. Inasmuch as over 95% of business litigations eventually settle before trial, getting an earlier and better settlement via mediation makes sense for most parties in most cases. Essential discovery can be conducted early, setting the stage for prompt resolution that saves the parties the vast bulk of fees and expenses that they otherwise would have incurred.

VII. Private

(a) Arbitration

Commercial arbitration generally is private and confidential, and can be made more so by the execution by the parties and counsel of a confidentiality agreement, which can be "so-ordered" by the arbitrator(s). Business arbitration awards are not published like court decisions, and there exists no searchable database of these private awards, so arbitration awards set no precedent. Arbitrators are held to standards of privacy and confidentiality that ensure that they will not divulge information regarding a proceeding over which they have presided, and the law generally protects arbitrators from being called to testify as witnesses in subsequent proceedings. The privacy and confidentiality of business arbitrations stands in stark contrast to the "public record" of court litigation and is viewed as a significant advantage to certain businesses that prefer not to air their dirty laundry in public, particularly considering the easy access to video and online information that abounds today.

(b) Mediation

Commercial mediation is private. Mediators are held to standards of privacy and confidentiality that ensure that they will not divulge information regarding a proceeding in which they have participated, and the law generally protects mediators from being called to testify as witnesses in subsequent proceedings. Most private mediation agreements (which parties and counsel execute to engage the mediator) reiterate these principles, so they enjoy contractual foundation as well.

VIII. Customized

(a) Arbitration

Business arbitration is customized, as noted in section IV(a) above on flexibility. This starts with the contractual arbitration clause and follows in the arbitration panel's application of the rules and clause to developments in the matter. And because in arbitration the rules of evidence are bent, not broken, the progress of the hearing itself is not impeded with excessive evidentiary objections and arguments. Arbitrators tend to take most evidence "for what it's worth," assessing how relevant, probative and reliable it is, based on their experience. There is no need to protect the evidentiary integrity of the arbitral process from layperson jurors. Private arbitrators as a rule do

not maintain large dockets, so they can afford each case more individualized attention than can judges, who are governmental employees.

(b) Mediation

Business mediation likewise is customized, as noted in section IV(b) above on flexibility. Indeed, one can create a "stepped" clause, encompassing multiple levels or steps of dispute resolution. For example, a stepped clause might start with requiring negotiation of a conflict and move through increments ending in either binding arbitration or court litigation. Perhaps the best known of these stepped clauses is the "med-arb" clause, which first requires mediation of the dispute and, failing that, arbitration (usually before a different neutral, because the mediator has been "tainted" by hearing non-evidentiary and legally irrelevant information proffered in a wholly different context with a different purpose than parties and counsel apply in arbitration). Every aspect of mediation is tailor-made for the proceeding at hand, and changes in the process can occur on an as-needed basis.

IX. Conclusion

So, business ADR indeed provides fast, fair, flexible, expert, economical, private, customized justice for parties who invoke ADR processes. Doing so takes a modicum of lawyerly strategic foresight, deciding which process(es) to use; how to customize the myriad potential particulars of the clause to best suit the situation and/or the party being represented; and how best to raise the negotiation issue of including an ADR clause in the parties' underlying business agreement. The many advantages of ADR answer in large measure that final issue, so it is important to be armed with knowledge about ADR processes. Online resources for drafting clauses can be found on the websites of ADR providers/forums such as the American Arbitration Association (AAA) (www.adr.org); JAMS (www.jamsadr.org); and CPR (www.cpradr.org); as well as best practices organizations such as the College of Commercial Arbitrators (www.thecca.net). The AAA last year designed an online tool to help practitioners construct clear and effective ADR provisions (www.clausebuilder.org). This article and these online resources furnish a good starting point for fulfilling a lawyer's professional obligations to (i) fully inform clients about all options for resolving conflicts that might arise out of a business agreement, and (ii) be able to draft an appropriate dispute resolution clause if the informed client wishes to invoke ADR.

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Drafting Arbitration Clauses: Practical Considerations for In-House Counsel

By Elizabeth J. Shampnoi

I. Introduction

The arbitration clause is a key provision in any contract. In the event of a breach, this clause will govern the method and process by which disputes are adjudicated. A well-drafted and considered arbitration clause is likely to result in a streamlined, efficient and cost-effective process that is tailored to meet the needs of the parties. Such a clause also allows the parties to maintain control over the process—a benefit not available in litigation. On the other hand, a poorly drafted clause is likely to result in an unwieldy, inefficient and expensive process. Indeed, poorly drafted clauses often cause unnecessary delay and require court intervention to be enforced, leading the parties to forfeit their control over the dispute.

When drafting and negotiating a contract, the parties' primary focus is finalizing the deal–not what will occur if the terms are breached. For this reason, the arbitration clause is an afterthought. Oftentimes, it is not until the final hours of negotiation that the parties agree to incorporate an arbitration clause and therefore fail to thoughtfully consider its specific terms. Worse, counsel will cut and paste an arbitration clause from another contract without considering its application to the contract at hand. This approach often results in a clause that fails to meet the parties' needs and leads to a frustrated dispute resolution process.

Drafting and negotiating an arbitration clause does not require a significant investment of time; however, taking the time to address several key considerations can prevent future cost and delay. These considerations are discussed herein.

II. The Standard Arbitration Clause

Beginning with a standard arbitration clause will ensure that the intent to arbitrate is clear and unambiguous. A clear and unambiguous clause allows the parties to proceed to arbitration expeditiously. An ambiguous clause, or a clause that lacks necessary terms, will cause delay and additional expense while the parties determine the intention behind the clause. Absent party agreement, court intervention is almost certain.

Dispute resolution providers such as the American Arbitration Association (AAA), International Institute for Conflict Prevention & Resolution, Inc. (CPR) and JAMS publish standard arbitration clauses on their websites.[1] These clauses have withstood judicial scrutiny and contain the necessary elements of an enforceable arbitration clause along with process the parties will follow. Namely, a standard clause identifies the arbitrable disputes, identifies the administrating provider, sets forth the applicable rules and contains language providing that the award may be entered in any court with jurisdiction.

An example of a standard clause follows:

> Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration and administered by the American Arbitration Association in accordance with its Commercial Rules [or other], and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.[2]

A standard clause, such as the one above, provides a template from which counsel may begin their drafting and editing as needed.[3] Where possible, counsel should avail themselves of this opportunity to craft a process that meets their client's needs and limits or expands the powers of the arbitrator accordingly. To effectively accomplish this task, counsel must have a clear and thorough understanding of the selected rules as well as the parties' needs surrounding resolution. Additionally, having an appreciation for the arbitration process and the areas in which delay and additional cost are more likely to occur is critical to avoiding a prolonged and costly arbitration. In the event the parties are unable or unwilling to negotiate the terms of the arbitration clause, the standard arbitration clause is an acceptable alternative as drafted.

III. Conditions Precedent to Arbitration

Dispute resolution escalation clauses, also known as step clauses, are increasingly popular. They provide for one or more attempts to amicably resolve the dispute prior to commencing arbitration. Mediation is the most common process utilized. Another common method utilized in business disputes involves negotiation between the senior executives.

Either or both processes can be beneficial to early dispute resolution. An important consideration when drafting such a provision is to specifically identify and outline the process to be utilized (i.e., mediation before the AAA; a meeting between the CEO of X Corporation and the CEO of Y Corporation for a minimum of four

hours). Another important consideration is setting forth a time frame in which the process is to be completed and a default provision allowing commencement of arbitration if one side fails to engage in the process set forth in the contract.

IV. What Is Arbitrable?

The majority of standard clauses provide that all disputes arising from the agreement are arbitrable. However, counsel may wish to limit or exclude certain disputes from the arbitration process. The best way to limit certain disputes is to specifically outline which disputes the arbitrator is authorized to hear and those that are reserved for the courts.

The most common exclusion involves prohibiting the arbitrator from issuing an injunction, whether preliminary or permanent, thereby requiring the parties to seek court intervention for such relief.

V. The Locale of the Arbitration

Identifying the location of the arbitration eliminates any disagreement once the arbitration is commenced. In the event the locale is not set forth in the agreement, the parties will be encouraged by the administrative provider to agree on a location. In the event the parties cannot agree, each provider has a method by which to make that determination.

Key factors for counsel in identifying the locale consist of the convenience of the parties and witnesses along with the available arbitrator pool. When the selected locale is a remote area and it is anticipated that the available pool of arbitrators is limited, adding with specificity that the arbitrator will be chosen from a more populated neighboring city, and naming such city, would be beneficial to the parties.

VI. Rules: Arbitration, Procedural and Substantive

All published standard clauses set forth the administering organization's rules. Many of these organizations have a variety of rules to choose from, depending on the substantive nature of the contract (i.e., commercial, real estate, construction and patent). Additionally, many organizations have rules designed for expedited and large, complex matters.[4] Understanding the differences between these rules is critical to identifying and selecting the most favorable set for your client.

The administering organization's rules primarily govern the arbitration process and often do not address procedural or substantive law. A common mistake made by counsel is to solely identify the substantive law and ignore the procedural law. To avoid confusion and disputes concerning the applicable law, specificity is important.

VII. The Arbitrator—One Versus Three, Area of Expertise and the Method of Selection

Selecting the right arbitrator(s) is critical to a positive arbitration experience. One of the benefits of arbitration is the ability to choose a decision maker with a specific subject matter expertise related to the dispute. Doing so eliminates the need for educating the decision maker about certain elements of the dispute, allowing the parties to quickly get to the heart of the issues. In addition to subject matter expertise, selecting an arbitrator who is experienced and skilled in the arbitration process will likely increase the efficiency of the process.

a. The Background of the Arbitrator

The well-known arbitration providers have many experienced and qualified arbitrators on their panels. Often when a case is filed, the parties have input into the background from which they will select an arbitrator(s). Notwithstanding, the parties may wish to set forth the background sought in the arbitration clause. For instance, the parties may agree in advance to a litigator who practices in the New York area with experience in licensing agreements. Caution should be exercised, however, to avoid being too specific. If there is not an abundance of arbitrators to select from because the criteria sought is too specific, this could add delay to the process and limit the pool from which to choose.

b. The Number of Arbitrators

Many dispute resolution providers have rules that determine whether one versus three arbitrators will be appointed. Oftentimes the number of arbitrators is determined by the claim amount. While the amount in dispute can be one factor to consider when determining how many arbitrators the parties need, it is not the only factor. Other factors to consider include cost, delay, risk and complexity. Selecting three arbitrators will automatically cost three times as much. Identifying consecutive hearing days that work for the parties, witnesses and arbitrators in the reasonable future will also be more difficult given the extra two people involved.

Complexity and risk are additional factors to consider. If the issues are complex or there is a lot of money at stake, the parties may wish to have three people determining liability and damages, as opposed to one, to make certain that an important issue is not overlooked and the damage award is reasonable.

Additionally, depending on the nature of the agreement and the dispute, various types of backgrounds may be required. For instance, in a construction dispute it

might be helpful to have a lawyer, a contractor and an accountant.

c. The Method of Selection

Many of the administering organizations have a process by which they encourage or require the parties to select the neutral. Generally, each organization provides a list from which to choose. Indeed, some organizations make their entire list available to the public. The methods provided by the various organizations are thorough; there is generally no need to deviate unless the parties are aware that the organization they have chosen will not have a pool of arbitrators from which their needs will be served.

Notwithstanding, in the case of three arbitrators, each party may prefer to select one arbitrator and have those arbitrators identify the third. Such arbitrators may be neutral or non-neutral, and the parties' intent concerning the same should be clearly outlined. If this method is preferred, setting forth a deadline by which the arbitrator will be appointed and a default provision for non-compliance will prevent delay.

VIII. Discovery

Arbitration is traditionally known for little to no discovery. In recent years, however, discovery in arbitration has become akin to that of litigation. Discovery is expensive and time-consuming. While arbitrators are trained to limit discovery and remind the parties that arbitration is meant to be more efficient and less costly than litigation, if both parties agree to extensive discovery, arbitrators are unlikely to interfere. While discovery is a necessary part of dispute resolution, in arbitration it should be kept to a minimum for the purposes of efficiency and cost savings.

It is difficult to predict exactly what discovery will be needed when a dispute arises. To control discovery in arbitration, counsel should consider setting forth the permitted and excluded forms of discovery (i.e., each party shall be permitted to take three depositions lasting no more than 8 hours each; interrogatories and depositions are not permitted). Counsel should also consider setting forth deadlines for the completion of discovery. Additionally, setting forth that the arbitrator will determine all discovery disputes along with a standard by which the arbitrator shall determine a party has not complied and what consequence should be incurred would be beneficial.

IX. Motion Practice

Motion practice historically has no place in arbitration. This is another litigation tool that is becoming more common in arbitration. Motion practice should be considered when it will streamline the process by limiting or eliminating issues for consideration. It is difficult to predict whether such motions will do so in a particular dispute. One way to ensure that motions are used only when helpful is to draft a clause that sets forth a standard by which the arbitrator may consider such motions (i.e., likelihood of success on the motion). Absent doing so, the parties will be subject to their agreement, the arbitrator's authority—which is broad—or the applicable rules.

X. Confidentiality

One of the most touted benefits of arbitration is that it is confidential. However, this is not entirely true. The administering agency and the arbitrator are bound by confidentiality, but the parties are not. To ensure confidentiality, the clause should contain language requiring the parties to keep the existence and substance of the proceedings private. A provision should also be added to require that any documents filed with the court for any reason surrounding the arbitration will be filed under seal. Finally, adding a liquidated damages clause will ensure compliance or provide compensation in the event one party breaches.

XI. Remedies

The parties may wish to add, limit or exclude remedies available pursuant to the administering organization's rules. Arbitrators have broad powers in granting remedies. Rather than leave it to chance, counsel may desire to specifically set forth the authority of the arbitrator to grant certain remedies. Common additions include interest, including the rate; attorneys' fees; costs; and expenses. By granting the arbitrator this authority, counsel is leaving the determination to the arbitrator's discretion. Consideration should be given to whether a standard should be set forth for the arbitrator in making her determination (i.e., prevailing party).

Common exclusions include injunctive relief and punitive and consequential damages. Consideration should also be given to whether the arbitrator may order money or goods be held in escrow, liquidated damages and limiting the amount of the award.

XII. The Award: Deadline and Form

In recent years, arbitration has developed a reputation for being as lengthy as litigation. To control the timeframe in which the dispute is resolved, the parties may set forth a deadline for issuance of the award that starts to run from the date the arbitration is commenced. Counsel should be careful that any such limitation is in fact reasonable. Additionally, as a safeguard, counsel should set forth a standard by which the arbitrator may extend such deadline.

The form of the award is another consideration. The parties may desire an award that simply describes who wins, who loses and how much is to be paid, if anything. Or the parties may desire an award that describes the reasons for the award or an award with findings of fact and conclusions of law. The more involved the award sought, the more costly and time-consuming. For instance, the arbitrator may require a transcript if expected to issue an award consisting of findings of fact and conclusions of law. Additionally, the time to draft and edit the award will be charged to the parties. If there are three arbitrators, this cost will be considerable.

XIII. Conclusion

A successful arbitration experience begins with the drafting of a clear and unambiguous arbitration clause tailored to meet your client's needs. Although your client is focused on finalizing the contract, it is your responsibility to protect your client in the case of a breach. A little extra time and money spent during the drafting phase will ensure an efficient and cost-effective arbitration process. While your clause does not need to contain each provision discussed herein, each should be considered to ensure that the clause meets your client's needs.

Endnotes

1. The AAA goes one step further and provides an on-line application that allows the parties to build their own clause. See <https://www.clausebuilder.org/cb/faces/index?_afrLoop=4674108154838182 &_afrWindowMode=0&_adf.ctrl-state=6b21vip0l_4>.
2. American Arbitration Association, *Drafting Dispute Resolution Clauses: A Practical Guide, (2013)* <https://www.adr.org/aaa/ShowPDF?doc=ADRSTG_002540>.
3. The AAA and its rules can be substituted for that of another arbitration forum such as JAMS or CPR.
4. Notably, most providers will administer another organization's rules if the clause identifies the administering organization as such but provides for the application of a differing organization's rules.

Elizabeth J. Shampnoi, Esq. is a lawyer at Stout Risius Ross, Inc., an expert advisory and consulting firm in New York City. Ms. Shampnoi regularly provides arbitration and mediation consulting services to law firms, in-house counsel and business leaders, including identifying which cases are best for arbitration, drafting clauses, selecting a neutral and best practices in advocacy. Formerly, Ms. Shampnoi was a litigator and a District Vice President at the American Arbitration Association overseeing the New York region.

Foreign Anti-Suit Injunctions: Protecting Your Arbitration Rights in New York

By Clara Flebus

Parties to an international transaction often include an arbitration clause in their contract because arbitration offers a neutral forum, the possibility of pre-determining a set of applicable laws and procedures that are suited to areas of potential controversy, as well as the legal and cultural background of the parties and the ability to enforce the arbitral award virtually worldwide under the New York Convention.[1] When a dispute arises, a party may seek the assistance of a local court against a counterpart who resists arbitration by making an application to compel that party to arbitrate. If the court finds that the dispute is arbitrable, the motion to compel arbitration will be granted. However, a litigation nightmare is only about to begin when, despite a judicial finding in favor of arbitration, a party nonetheless proceeds to file a lawsuit in the courts of a foreign country. In this context, foreign anti-suit injunctions can provide an effective remedy to protect a client's arbitration rights.

A foreign anti-suit injunction is an application to a court requesting that it enjoin a party over whom it has jurisdiction from pursuing improper litigation abroad. Typically, applications for anti-suit injunctions arise when the same parties are litigating the same dispute in different countries concurrently, that is, in "parallel proceedings," or when one court has ruled on an issue and the losing party attempts to undermine that ruling by seeking relief in a foreign court that it perceives as friendlier. While the injunction is imposed against a specified party, the result is to effectively prohibit a foreign court from hearing a case over which it has jurisdiction. Mindful of considerations of international comity, courts in the United States typically have imposed foreign anti-suit injunctions sparingly and only as extraordinary remedies.

In recent years, a new trend has emerged where enforcement of an arbitration agreement is implicated. Courts increasingly have been willing to grant anti-suit injunctions where the parties have a valid arbitration agreement, but a party commences an action in a foreign court to undermine the arbitral process. In the Second Circuit, the current standard for anti-suit injunctions accords significant weight to the federal policy in favor of arbitration when the injunction is sought to protect a federal judgment directing the parties to arbitrate. In this situation, courts in the Second Circuit have held that considerations of comity play a lesser role.[2]

The location of the seat of arbitration is one of the most important factors parties must consider when drafting international arbitration agreements, because the seat will determine which courts will have supervisory jurisdiction over the arbitration. The presence of courts willing to issue anti-suit injunctions when arbitral proceedings are threatened by a foreign lawsuit makes New York a desirable venue for international arbitration.

I. Developing a Multi-Factor Test for Anti-Suit Injunctions in Arbitration-Related Matters

A. China Trade

Imagine that you bring a suit against party X in New York. Party X promptly institutes a parallel action against you in a foreign country to seek a declaratory judgment confirming that it is not liable to you. Before any judgment is rendered in either action, you file a motion for an anti-suit injunction against party X in New York. These are essentially the facts in *China Trade and Development Corporation v. M.V. Choong Yong*,[3] a decision that has represented Second Circuit law on anti-suit injunctions in "parallel proceedings" for over 25 years. Your application for the injunction would probably be denied.

In *China Trade*, a Korean corporation had agreed with China Trade and Development Corporation ("China Trade") to transport a shipment of soybeans from the United States to China on a vessel, the M.V. Choong Yong, which ran aground. Subsequently, China Trade filed an action against the Korean company in the Southern District of New York seeking damages for the loss of the soybean shipment. While the parties were completing discovery, the Korean company commenced a declaratory judgment action in Korean courts to obtain a declaration that it was not liable for China Trade's loss. Immediately thereafter, China Trade made a motion in New York for a foreign anti-suit injunction against further prosecution of the Korean action.

On appeal, the Second Circuit reversed the district court's granting of the injunction in the interest of comity, stating that "parallel proceedings are ordinarily tolerable."[4] The decision noted that courts with concurrent jurisdiction over the parties "will ordinarily not interfere with or try to restrain proceedings before the other," at least until a judgment is obtained in one action that can be pleaded as *res judicata* in the other.[5] It instructed that foreign anti-suit injunctions "should be granted only with care and great restraint."[6]

However, the court recognized that anti-suit injunctions may be appropriate in certain situations. Accordingly, it articulated a multi-factor test setting forth two threshold requirements and five discretionary criteria a court should consider when adjudicating an application for a foreign anti-suit injunction.

Pursuant to *China Trade*, a court must first determine whether: (a) the parties are the same in both lawsuits; and (b) resolution of the case before the enjoining court is dispositive of the action to be enjoined.[7] If these threshold requirements are met, the judge must evaluate equitable factors including whether:

> (1) [there is] frustration of a policy in the enjoining forum; (2) the foreign action would be vexatious; (3) [there is] a threat to the issuing court's in rem or quasi in rem jurisdiction; (4) the proceedings in the other forum prejudice other equitable considerations; or (5) adjudication of the same issues in separate actions would result in delay, inconvenience, expense, inconsistency, or a race to judgment.[8]

The court noted that since inconvenience, vexatiousness, and expense are likely to be present whenever there are parallel proceedings, two out of the five factors should be accorded greater significance, to wit: whether the foreign action threatens the enjoining forum's jurisdiction, and whether there are strong public policies implications.[9]

B. Refinement of the *China Trade* Test in *Karaha Bodas*

The analysis in *China Trade* has evolved over the years. Imagine, for instance, that you arbitrated a dispute against party X, you received an arbitral award in your favor, and you have obtained a judgment confirming that award. Now, party X commences proceedings in a foreign jurisdiction to challenge the validity of the award and undermine the execution of the judgment. You make an application in New York to enjoin party X from prosecuting the action in the foreign forum. This was the scenario in *Karaha Bodas Company, L.L.C. v. Perusahaan Pertambangan Minyak Das Gas Bumi Negara*.[10] The court would likely grant the injunction to protect the enforcement of the award.

In *Karaha Bodas*, the Second Circuit clarified that the *China Trade* test does not apply only to anti-suit injunctions sought in "parallel proceedings" but also to those injunctions intended to protect a federal judgment. More specifically, the court provided guidance on the weight that should be given to principles of comity and the discretionary *China Trade* factors when an action in a foreign court undermines the enforcement of a judgment confirming an arbitral award.

Karaha Bodas, an entity owned by American power companies, and Pertamina, an oil and gas company owned by the Republic of Indonesia, had entered into a joint venture for a project to develop a geothermal resource in Indonesia. In their contract, the parties agreed to settle any disputes between them by arbitration in Geneva, Switzerland. After the Indonesian government decided to suspend the project, Karaha Bodas commenced an arbitration to recover alleged damages and lost profits. The arbitral tribunal rendered an award in favor of Karaha Bodas in the amount of $261 million, which Pertamina refused to pay.[11]

Subsequently, Karaha Bodas brought confirmation and enforcement proceedings in several countries, including Hong Kong, Singapore, Canada and the United States. Following confirmation of the award by a federal district court in Texas, Karaha Bodas sought and obtained registration and enforcement of its judgment in the Southern District of New York, where Pertamina maintained several bank accounts. The Southern District also ordered Pertamina, who was resisting execution, to turn over the full amount of the award to Karaha Bodas.[12]

While the parties were litigating in New York, Pertamina filed an action in the Cayman Islands, alleging that the award was procured by fraud and seeking to recover the entire amount of the award as damages. In that action, Pertamina also sought a "Mareva" injunction—a worldwide prejudgment attachment remedy available in Commonwealth jurisdictions—prohibiting Karaha Bodas from disposing of any funds obtained pursuant to the award.[13] In response, Karaha Bodas promptly moved in the Southern District for an anti-suit injunction prohibiting Pertamina from prosecuting the lawsuit in the Cayman Islands.

Affirming the district court's decision granting the injunction, the Second Circuit held that the *China Trade* test applies to anti-suit injunctions intended to prevent an abusive effort to evade a domestic judgment. Unlike the standard in "parallel proceedings," however, principles of comity play a different role when a federal judgment has been rendered. The court instructed that "where one court has already reached a judgment—on the same issues, involving the same parties—considerations of comity have diminished force."[14]

The decision also held that the discretionary *China Trade* factors tend to weigh in favor of the injunction when a judgment related to arbitration is involved. First, the court stated that the anti-suit injunction was necessary to protect the court's jurisdiction because the foreign lawsuit "threaten[ed] to undermine the federal judgments confirming and enforcing the [a]ward."[15] Second, it held that the injunction was also warranted in view of the strong policy in favor of international arbitration in the

United States. More specifically, the court emphasized that in proceedings falling under the New York Convention there is a need "to avoid undermining the twin goals of arbitration, namely, settling disputes efficiently and avoiding long and expensive litigation."[16]

II. Anti-Suit Injunctions to Enforce the Arbitration Agreement

Now, imagine that a New York court compels you and party X to arbitrate a dispute. While the arbitration is underway, the ever-litigious party X commences a lawsuit abroad, alleging that the claims subject to arbitration are frivolous. Most likely, you would be able to obtain an anti-suit injunction in New York restraining party X from prosecuting the foreign proceedings.

The Southern District of New York contemplated this situation in *T-Jat Systems 2006 LTD v. Amdocs Software Systems Limited*,[17] a recent decision granting an application for an anti-suit injunction sought to protect a domestic judgment compelling the parties to arbitrate. *T-Jat Systems* demonstrates that the strong policy in favor of arbitration can counterbalance considerations of comity where an arbitration agreement is at stake.

In *T-Jat Systems*, petitioner and respondent were technology and software providers who had entered into a confidentiality and non-disclosure agreement to facilitate the sharing of proprietary information between the two companies and a software licensing and services agreement, pursuant to which respondent would use and distribute petitioner's proprietary technologies. Petitioner filed an action in the Southern District of New York alleging that respondent violated both agreements by developing separate software incorporating similar technology. The petition sought injunctive relief for the alleged infringement of proprietary rights, with any damages to be decided pursuant to a mandatory arbitration clause contained in the licensing agreement. The court granted petitioner a temporary restraining order enjoining respondent from violating the agreements. Meanwhile, respondent successfully moved in the same action to compel arbitration.[18]

However, after the commencement of the arbitration, Amdocs (the respondent) unexpectedly filed a lawsuit in Israel against T-Jat Ltd., a 48% shareholder of the petitioner in the New York action, and two of petitioner's principals and co-founders. In the Israeli action, Amdocs asserted tort claims alleging that the lawsuit in New York was frivolous, in bad faith and brought to harm the launch of a mobile device application pursuant to a contract between Amdocs and a third party, which had been cancelled allegedly because of the litigation. In response, petitioner filed a motion in New York seeking an anti-suit injunction halting the Israeli proceedings.[19]

A. Same Parties

The court went on to apply the *China Trade* test. Under *China Trade*, the first threshold requirement is that the parties must be the same in both lawsuits. Here, the defendants in the Israeli action did not nominally include the petitioner. However, the court stated that "complete identity between the parties is not required."[20] After astutely observing that the Israeli complaint itself treated petitioner and the Israeli defendants as essentially the same entities, and that the latter were named as defendants in the foreign action because of their corporate relationship with the petitioner, the court held that "substantial similarity and affiliation" between the parties in the two suits, rather than complete identity, was sufficient to satisfy the "same party" prong of the test.[21]

B. Dispositive Nature of the Case

The court then turned to the second threshold requirement, namely, whether the resolution of this case would be dispositive of the action in the foreign court. To clarify matters, the court explained that in cases involving a decision to compel arbitration, the inquiry focuses on "whether the ruling on arbitrability is dispositive of the foreign litigation." [22] In other words, a court needs to determine whether the claims in the foreign lawsuit must be arbitrated pursuant to the arbitration agreement at issue. Here, the court found that the arbitration clause, which covered "all other disputes arising under or in connection with" the parties' licensing agreement, was sufficiently broad to encompass the claims in the Israeli action.[23] Since those claims challenged the legitimacy of petitioner's action in New York and touched matters governed by the parties' agreements, the court reasoned that they were subject to the arbitration clause. Thus, it held that compelling arbitration in New York would dispose of the Israeli action, thereby satisfying the second *China Trade* threshold requirement.

An interesting twist in *T-Jat Systems* was Amdocs' contention that the Israeli defendants were not signatories to the arbitration agreement and could not be compelled to arbitrate the claims leveled against them. However, the court stated that this argument was obviated in that the Israeli defendants had promptly consented to arbitration. The court also reasoned that the Israeli defendants themselves, albeit non-signatories to the arbitration clause, could have compelled arbitration against Amdocs, a signatory, because Amdocs had treated them in its complaint as though they were interchangeable with petitioner, also a signatory. Thus, the court concluded that it would be inequitable for Amdocs to refuse to arbitrate on the grounds that it had not entered into an arbitration agreement with the Israeli defendants.[24]

C. Discretionary Factors and Equitable Considerations

The court found that equitable considerations also supported granting the anti-suit injunction. Here, the court specifically focused on the need to uphold the federal policy that strongly favors the enforcement of arbitration agreements and found that allowing the Israeli case to proceed in the face of the compelled arbitration would frustrate that policy. The decision noted that the injunction would also further the strong public policy of the United States in favor of international arbitration.[25]

Next, the court found that the Israeli action undermined the federal court's jurisdiction to compel arbitration because Amdocs sought a declaration that petitioner's claim to relief in the arbitral forum was frivolous. Since a decision had been rendered compelling the parties to arbitrate petitioner's claims for the alleged infringement of proprietary technology, the court reasoned that considerations of comity played a diminished role, and there was less justification for permitting a second action on the same issues abroad.

Lastly, the court found that the Israeli action was vexatious because it created a parallel action which could lead to a conflicting judgment as to the merits of petitioner's claims. Thus, the court concluded that the balance of the equitable factors favored granting the anti-suit injunction.[26]

Conclusion

Foreign anti-suit injunctions are controversial because they restrain judicial proceedings in another sovereign country. Federal courts across the United States agree that the threshold requirements, *i.e.*, "same parties" and "dispositive nature of the case" must be met. However, Circuits differ in the application of additional discretionary criteria and the importance of comity and public policy considerations. *T-Jat Systems* demonstrates that the courts in the Second Circuit, upon a sufficient showing, are prepared to issue anti-suit injunctions to restrain a party from prosecuting a foreign action that threatens to undermine an arbitral agreement. At the heart of the Second Circuit standard are equitable considerations aimed at ensuring that international arbitration agreements are honored and enforced.

Underscoring this judicial trend, the Commercial Division of the New York Supreme Court has recently created a specialized chamber to handle international arbitration-related matters. In addition, New York has made substantial logistical efforts to attract more international arbitrations, including the opening of the New York International Arbitration Center and the establishment of an office of the International Chamber of Commerce (ICC), both in Manhattan. An informed practitioner would be wise to take notice of the advantages presented by these developments. The terrain of international arbitration is rapidly changing. Will you keep up?

Endnotes

1. *See* UNCITRAL Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("the New York Convention") of 1958 available at: http://www.uncitral.org/pdf/english/texts/arbitration/NY-conv/XXII_1_e.pdf.
2. *See, e.g., T-Jat Systems 2006 LTD v. Amdocs Software Systems Limited*, 2013 WL 6409476 (S.D.N.Y. Dec. 9, 2013); *Bailey Shipping Limited v. American Bureau of Shipping*, 2013 WL 5312540 (S.D.N.Y. Sept. 23, 2013); *Ibeto Petrochemical Industries Ltd.v. M/T Beffen*, 475 F.3d 56 (2d Cir. 2007).
3. *China Trade*, 837 F.2d 33 (2d Cir. 1987).
4. *Id.* at 36.
5. *Id.*
6. *Id.* at 35.
7. *See id.*
8. *Id.*
9. *See id.* at 36.
10. *Karaha Bodas*, 500 F.3d 111 (2d Cir. 2007).
11. *See id.* at 113-114.
12. *See id.* at 116.
13. *See id.* at 117.
14. *Id.* at 120.
15. *Id.* at 126.
16. *Id.*
17. *T-Jat Systems*, 2013 WL 6409476 (S.D.N.Y. Dec. 9, 2013).
18. *See id.* at *1.
19. *See id.*
20. *Id.* at *2.
21. *Id.*
22. *Id.*
23. *Id.*
24. *See id.*at *3.
25. *See id.*
26. *See id.* at *4.

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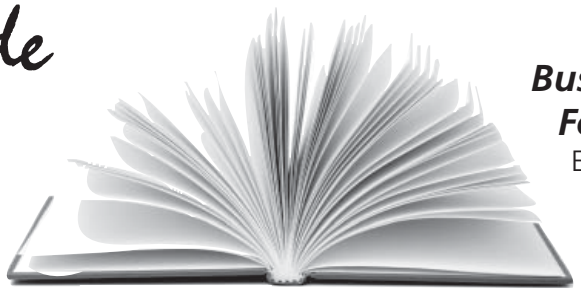

Business and Commercial Litigation in Federal Courts, Third Edition

Edited by Robert L. Haig

Reviewed by Steven R. Schoenfeld

Business and Commercial Litigation in Federal Courts, published by the West Group and the ABA Section of Litigation, is the definitive work on its subject, and we are fortunate now to have the Third Edition. The word "comprehensive" would not be comprehensive enough to describe this treatise. Robert L. Haig, the Editor-in-Chief, and his team of 251 principal authors, including leading practitioners and 22 federal judges, have outdone themselves with this new edition. The Third Edition adds 34 new chapters to the 96 chapters that were in the Second Edition, and the authors substantially expanded all of the existing chapters. Now the treatise runs to eleven volumes with 12,742 pages. Plus, the treatise has a separate appendix with tables of all jury instructions, forms, laws, rules and cases discussed in its volumes. The December 2013 pocket parts are 2.5 inches thick (yes, I was curious and measured) and could fill their own additional volume. And, as they say in those infomercials, that's not all— there's more. You also get a CD-ROM with all of the jury instructions, forms and checklists included in the printed volumes.

What is particularly unique about this treatise is the combination of in-depth treatment of federal civil procedure with substantive law. The treatise will take you through each step in a commercial case in federal court from the initial case assessment through pleadings, discovery (all phases and tools, including e-discovery), motions, trials and appeals. Appeals to the Supreme Court are covered, too. In addition, it contains 63 chapters on substantive law as applied in federal business cases such as securities, antitrust, banking, contracts, government contracts, insurance, re-insurance, sales, intellectual property, business torts and white-collar crime, just to name a few.

It would take a multi-volume book review to do justice to the wealth of information that this treatise provides. I can't do that so I have focused on a few chapters that captured my interest just to illustrate in a little more detail the content of the treatise. Fortunately, there is a very good index that you can consult when you get your books so you can jump around to whatever interests you.

A good place to start is Chapter 58, "Litigation Avoidance and Prevention." After all, if you master this chapter, maybe you won't need the rest of the treatise. It has a lot of commonsense gems on how to avoid a problem in the first place, including, for example, trusting your instincts with respect to the kinds of people or companies with whom you do business, adopting risk management practices and procedures and, of course, carefully documenting agreements.

We all know that clients cannot always avoid litigation, and so you may want to turn to Chapter 6, "Case Evaluation," a critical part of handling any business litigation. This chapter takes the reader step-by-step through the process of evaluating a case, from identifying the issues, sources of proof (documents and witnesses), and applicable law to estimating damages. The authors then explain how to use case evaluations to make strategic and tactical decisions in litigation. There is also a particularly good discussion of the value and limits of quantitative approaches to case evaluation.

The pleadings are where all litigation begins and so it may be worth focusing on Chapter 7, "The Complaint" and Chapter 8, "Responses to the Complaint." Practitioners should be wary of federal courts' increased scrutiny of the sufficiency of pleadings in light of the Supreme Court's decisions in *Bell Atlantic Corp. v. Twombly* and *Ashcroft v. Iqbal*. These chapters cover technical pleading requirements, the impact of Twombly and Iqbal, and pleading strategy and objectives.

Litigation requires management as well as advocacy skills, and so I recommend Chapters 62 and 63, "Litigation Management by Law Firms" and "Litigation Management by Corporations." The latter will be of particular interest to in-house counsel and provides a very good overview of managing litigation from the corporation's perspective, covering such issues as the selection and retention of outside counsel when needed, the application of project management principles to litigation, management of litigation costs, and litigation reporting requirements, including reserves and audit letters.

After perusing the more than 60 chapters on the litigation process, you can turn to the many chapters on substantive areas of law. I particularly liked, for example, Chapters 86, 87 and 88. They are a mini-treatise within the treatise on intellectual property covering patent, trademark and copyright litigation. These chapters (like others on substantive law) are chock-full of thoughtful analysis, suggestions, checklists and form pleadings and jury instructions.

It is hard to conceive of anything more that could be added to this treatise. If there might be any criticism, one wonders if there is too much here and that some of the substantive subjects are covered well enough in other publications.

Nonetheless, *Business and Commercial Litigation in Federal Courts,* Third Edition, is a research tool, a practical guide and a source of wisdom and experience. All lawyers (whether in companies or at law firms) will be well served with this treatise on hand when they are handling any federal court litigation.

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Ethics Program and Member Reception: October 23

Plan Now to Attend!

The Corporate Counsel Section will hold its biannual Ethics for Corporate Counsel program on Thursday, October 23rd at the Cornell Club (6 East 44th Street, New York, NY) from 1:00 p.m. to 5:00 p.m. This is the latest in the Section's series of well-received, timely programs on ethical issues facing attorneys working for corporations and other business entities. With in-house counsel facing greater scrutiny and regulation on both the federal and state levels, it is necessary for all corporate counsel to be fluent in regulation not only of the corporations and other business entities that they represent, but in rules governing the practice of law by corporate counsel. This program will assist in-house attorneys and other corporate attorneys in understanding and applying their ethical and legal obligations and provides four MCLE credits in ethics and professionalism. Program topics will include privilege issues, conflicts, supervision of in-house staff, etc., and will include a focus on the rule of corporate counsel in regulatory investigations. Panelists will include: Michael S. Ross (Law Offices of Michael S. Ross); Anthony E. Davis (Hinshaw & Culbertson, LLP); Jerome Snider (Davis, Polk & Wardwell); Mark S. Cohen (Cohen&Gresser LLP); and Naomi Goldstein (Departmental Disciplinary Committee, NYS Supreme Court, First Department).

The Ethics CLE program will be followed by a member appreciation and networking reception, also at the Cornell Club. Attendance at the reception is complimentary for Corporate Counsel Section members, but space is limited and reservations will be accepted on a first come/first served basis. So please be sure to watch your email tor the announcement of further program and reception registration and reservation details.

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