Resolving Patent Disputes in the US through ADR --

Less Risk, Less Cost, Better Results

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- Intellectual property practitioner for 25+ years (since 1979)
  - IP practice heavily emphasizes patent matters involving complex electronics, communications and software, and mechanical technologies
  - 1984 to present -- Michaelson and Associates; 1982-1984 -- Patent Atty., Pennie and Edmonds; 1979-1982 -- Member Legal and Patent Staff, Bell Telephone Laboratories (now Lucent)
- Arbitrate/mediate IT/IP/technology and other disputes for 13+ years (since 1991)
  - Member of WIPO, CPR, AAA, NAF, ICC and LCIA and various other US and foreign mediation and arbitration panels for IP/IT/technology, commercial and other matters
  - Member of WIPO, CPR, NAF and ADNDRC (Asian Domain Name Dispute Resolution Centre) ICANN arbitration panels for domain name disputes
- Fellow and Chartered Arbitrator, Chartered Institute of Arbitrators (UK)
- Accredited Mediator – Centre for Effective Dispute Resolution (CEDR) (UK)
- Mediator/arbitrator for United States District Court for the Eastern District of New York, and mediator for New Jersey Superior Court
- Court-appointed expert in patent law for United States District Court for the District of New Jersey
- For detailed CV, see www.mandw.com/mich.html

Recent Patent Verdicts and Arbitration Awards in the United States

$ 520,600,000 -- Eolas Technologies v. Microsoft (Internet browser) (8/11/03)

$ 505,000,000 -- Igen International (2002) (drugs)

$ 425,000,000 -- Cordis v. Guidant (arb. – arterial stents) (6/6/2003)

$ 424,000,000 -- Medical Instruments (2002)

$ 272,000,000 -- Cordis Corporation v. Medtronic Advanced Vascular Engineering Inc. (arterial stent) (8/12/03)

$ 150,000,000 -- Intergraph (2002)

$ 78,000,000 -- Southern Clay Products v. United Catalysts (2001)

$ 64,500,000 -- Cable and Computer Technology v. Lockheed Sanders (2001)

$ 61,000,000 -- Harris Electronics (2002)

$ 53,700,000 -- NTP v. Research in Motion (7/2003)

$ 46,600,000 -- Honeywell International v. Hamilton Sundstrand (2001)

$ 873,000,000 -- Polaroid v. Kodak (1991) (instant photography)

from: Bloomberg.com, New York Times, Internet Patent News

Characteristics of US Patent Litigation

- High stakes
  (damages frequently run into US $ 10s -100s Millions+)
- Inordinately expensive legal fees (approx. US $ 1.5-2.5 M/patent/side)
- Time consuming (measured in years to final decision)
- Exceedingly complex and arcane subject matter -- technology
  (often involves making very fine distinctions: (a) regarding meaning and extent of technical teachings in the intrinsic record (patent spec and file history) for claim construction and as against "prior art" for validity (novelty and obviousness) analysis, and (b) between claims and accused infringing article to determine extent of infringement, both literal and via equivalence)
- Lack of requisite technical knowledge of decision maker
  (often judge and certainly jury)
- Protracted, exhaustive, highly intrusive and disruptive discovery
  under Federal Rules of Civil Procedure and Federal Rules of Evidence
- Public (press routinely publishes news of patent verdicts/awards)
- Polarizing (destroys on-going/potential business relationships)
- Distributional result that solely addresses parties' legal positions; not their underlying interests/needs => all parties are usually dissatisfied with overall results

Patent Mediation/Arbitration/Litigation Characteristics

- Fundamental Goal:
  - Mediation: Find a business solution that meets interests/needs of the disputants through joint problem-solving; expand value, where possible, rather than merely distribute it amongst disputants; effectively take legal and factual issues "off the table" in favor of a business oriented solution
  - Arbitration and Litigation: Submit dispute to a third-party decision-maker to find the truth among conflicting factual positions and choose between legal positions, and transform positions into enforceable rights
- Transaction Cost:
  - Mediation: Low (<5% of the cost of complex patent litigation, often much less; mediation carries approx 80% success rate across all substantive areas, patent disputes are no exception (success rate is lower in court-annexed mediations))
  - Arbitration: Moderate
    (depends on the complexity of arbitral process used, but generally still much less than litigation)
  - Litigation: Inordinate (C = (US $ 1.5-2.5M) •N) per side; where C = legal fees to each side, N = total number of patents in dispute); most is spent during discovery

Patent Mediation/Arbitration/Litigation Characteristics (cont.)

➢Party Autonomy:

• Mediation and Arbitration: Maximum

Parties have complete freedom, by mutual agreement, to choose neutral(s), rule set, governing law, venue, site, language and have ability to make appropriate changes, again by mutual agreement, during the proceeding as needs arise.

• Litigation: Minimum. After Complaint is filed, essentially none.

– Once Complaint is filed, governing law and venue is fixed for entire duration of litigation.

– Procedure governed by inflexible Court rules (e.g. Fed. Rules of Civil Procedure, and Federal Rules of Evidence).

– Presiding Judge is often randomly selected by Court Clerk's office.

– Once Complaint is filed, litigant cedes substantially all control over proceeding to Judge.

Patent Mediation/Arbitration/Litigation Characteristics (cont.)

➢ Speed of Process:

- Mediation: Relatively quick

(Usually a few months, if not less, start to finish; though depends on complexity of dispute and process)

- Arbitration: Moderate
- Litigation: Lethargic (years)

➢ Result:

- Mediation: On average, 80% probability of successful negotiated settlement that meets parties' interests/needs; less in court-annexed mediations
- Arbitration and Litigation: Imposed distributional award

➢ Appeal:

- Mediation: N/A
- Arbitration: No (with rare exceptions but predicated upon parties' prior agreement)

(Some rules sets provide appeal procedure, parties need to expressly and contractually agree to its use; absent that, grounds to vacate arbitration awards under Federal Arbitration Act are very limited and Courts are very reluctant to vacate awards; the lack of appeal has traditionally been a main factor that inhibited acceptance of arbitration in patent litigation)

- Litigation: Yes

(To CAFC and then US Sup. Ct., though latter is very reluctant to grant review of patent cases; therefore, for all intents and purposes, CAFC usually has final word in patent matters)

Patent Mediation/Arbitration/Litigation Characteristics (cont.)

- How invoked and when:
  - Mediation and Arbitration: By contract

(Mediation is best started before any discovery begins or suit is commenced, since disputants will not have "invested" much, if anything, in litigation expenses and thus each will be significantly motivated by prospect of significant transaction cost savings. Include well-thought out ADR process in initial agreement between parties, e.g. license, supply, joint venture, partnering, technology sharing, etc. -- far easier to agree on "divorce" provision then than later)

  - Litigation: Complaint filed in USDC

(Frequently preceded by a "warning" letter from counsel to provide notice for "willfulness")

- Discovery:
  - Mediation: Typically highly focused information exchange

(Agreed to information exchange with very targeted requests – sufficient for each disputant to reasonably assess business risk to both sides; not search for truth; negligible disruption; pre-mediation depositions are very rare – assuming mediation occurs prior to commencement of discovery in litigation)

  - Arbitration: Targeted discovery

(Arbitrators typically exercise firm control over discovery; typically document exchange, though depositions can occur but are usually very limited)

  - Litigation: Extensive discovery

("Fishing expedition"; patent litigations can produce millions of pages of documents; discovery in large patent case can cost upwards of $ 100K-300K+ in legal fees per disputant per month, and causes considerable disruption, intrusion and distraction to disputants – additional "soft" costs)

Patent Mediation/Arbitration/Litigation Characteristics (cont.)

- Process and result confidentiality:
  - Mediation and arbitration: Yes, as to both

    (Parties can decide what information to release, how and when, e.g., through an agreed joint press release)
  - Litigation: Confidentiality is very problematic

    (Trials are public. Patent trials, particularly due to the size of their awards/potential awards, often beget significant media attention.
    Confidential documents and other information will be revealed through discovery to other side, though access can be limited, e.g., "attorney eyes only" – significant risk still exists that materials may be inadvertently disclosed outside of scope of "protective order" to those who should not receive them; stipulated settlements and/or confidential documents contained in pleadings/correspondence with Court can be filed under "seal".)
- Quality of neutral and how chosen:
  - Mediation and Arbitration: High, parties appoint

    (Parties generally select neutral with requisite substantive expertise. Potential for "knucklehead" neutral in sole-panelist arbitration can present considerable risk if no appeal process is used; hence 3-person panels routinely used in patent arbitrations.)
  - Litigation: Problematic quality, Random selection

    (Legal quality of Federal Judge is often very high though degree of technical expertise is low/non-existent. Quality of jury is highly suspect and its technical competence is non-existent. Poor decision by judge/jury may be rectified through appeal.)

Patent Mediation/Arbitration/Litigation Characteristics (cont.)

- Suitability to US Patent Disputes:
  - Mediation and Arbitration: Yes – ideally suited

    (Provided parties select proper neutral(s))
  - Litigation: Problematic

    (Federal Courts have recognized that complex litigation can be better handled through ADR -- patent cases are no exception; Courts are very amenable to parties taking initiative and suggesting ADR process and neutral; Court annexed mediation programs are becoming increasingly common in Federal District Courts – with patent cases often diverted to mediation, though quality of court mediators and/or those on Court's list is quite variable)

- Suitability to International Patent Disputes:
  - Mediation and Arbitration: Yes -- ideally suited

    (Extent of process is determined by parties' ADR provision; arbitration awards are enforceable under New York Convention; excellent administering organizations exist, e.g., WIPO; foreign entities generally know and are comfortable with arbitration for resolving international disputes)
  - Litigation: Not suited at all

    (Jurisdiction over foreign entities is highly problematic; most foreign entities are very uncomfortable with US litigation and particularly exhaustive and expensive US style discovery)

Patent Mediation/Arbitration/Litigation Characteristics (cont.)

- Overall Risk to Parties:
  - Mediation: VERY LOW
  - Arbitration: MODERATE

  (Counterbalanced by finality, but must choose proper neutral(s))
  - Litigation: VERY HIGH

- Overall Satisfaction of Parties:
  - Mediation: VERY HIGH

  (Settlement effectuates business interests/needs; even where mediation itself fails, settlement often occurs shortly thereafter based on info parties learned during mediation)
  - Arbitration: HIGH

  (As long as each party feels that it has been accorded proper due process; i.e. full, fair and complete opportunity to be heard; and process has been used correctly)
  - Litigation: VERY LOW

Federal Arbitration Act – Title 9 (9 USC)

§ 2 – *Validity, Irrevocability and Enforcement of Agreements to Arbitrate*

A written provision in ... a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

§ 7 – *Witnesses before Arbitrators; Fees; compelling Attendance*

The arbitrators ... may summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him ... any book, record, document, or paper which may be deemed material as evidence in the case. ... Said summons shall issue in the name of the arbitrator ... and shall be signed by the arbitrators ... and shall be directed to said person and shall be served in the same manner as subpoenas to appear and testify before the court ...

§ 10 – *Vacation; Grounds, Rehearing*

(a) In any of the following cases the United States court in and for the district wherein the award was made many make an order vacating the award upon the application of any party to the arbitration –

(1) Where the award was procured by corruption, fraud, or undue means;

(2) Where there was evident partiality or corruption in the arbitrators, or either of them,

(3) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(4) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

(5) Where an award is vacated and the time within which the agreement required the award to be made had not expired the court may, in its discretion, direct a rehearing by the arbitrators.

United States Patent Act -- Title 35 (35 USC)

§ 294 – *Voluntary arbitration*

a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

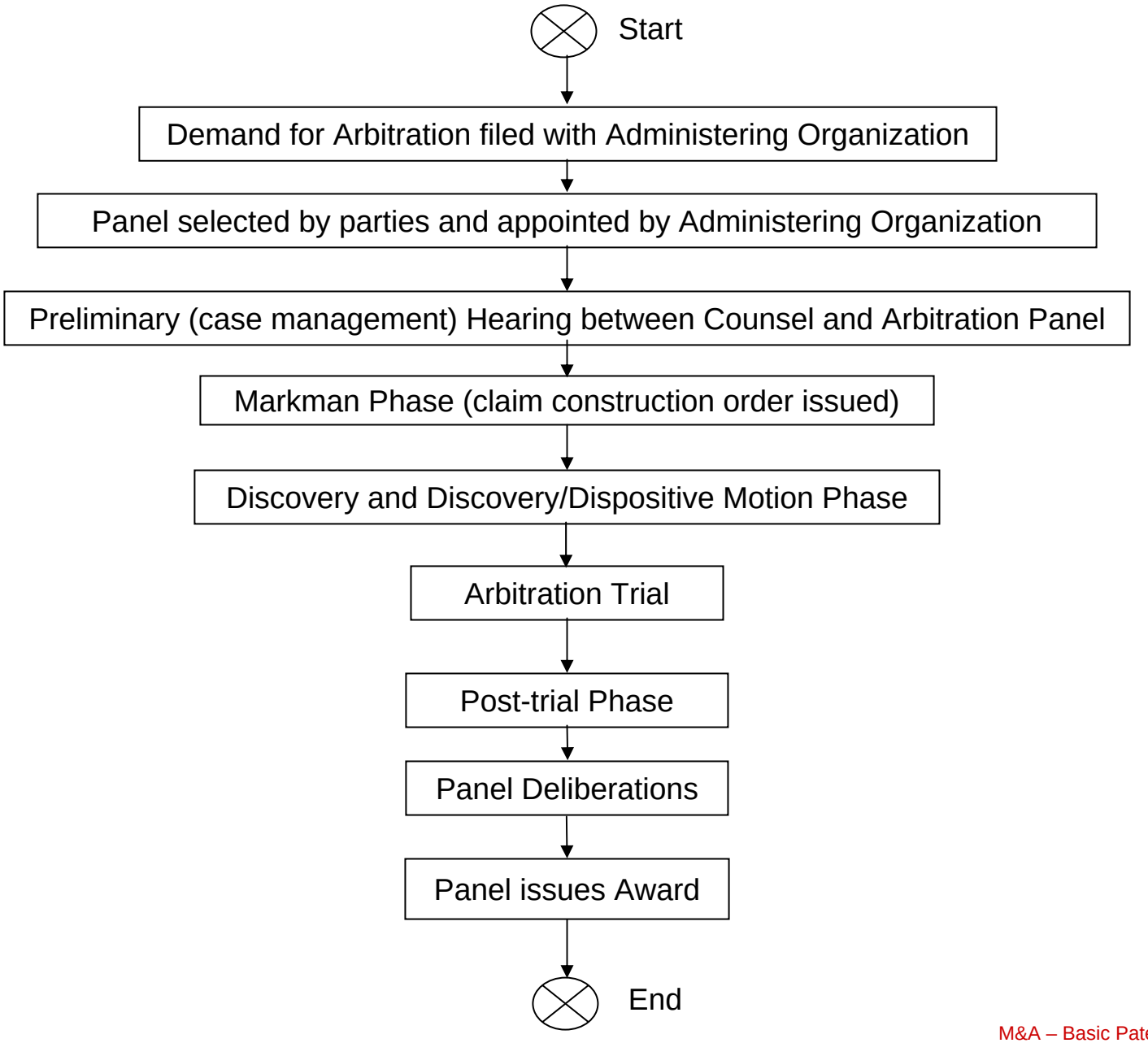
c) An award shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director [of the Patent and Trademark Office]. There shall be a separate notice for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Director. The Director shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Director, any party to the proceeding may provide such notice to the Director.

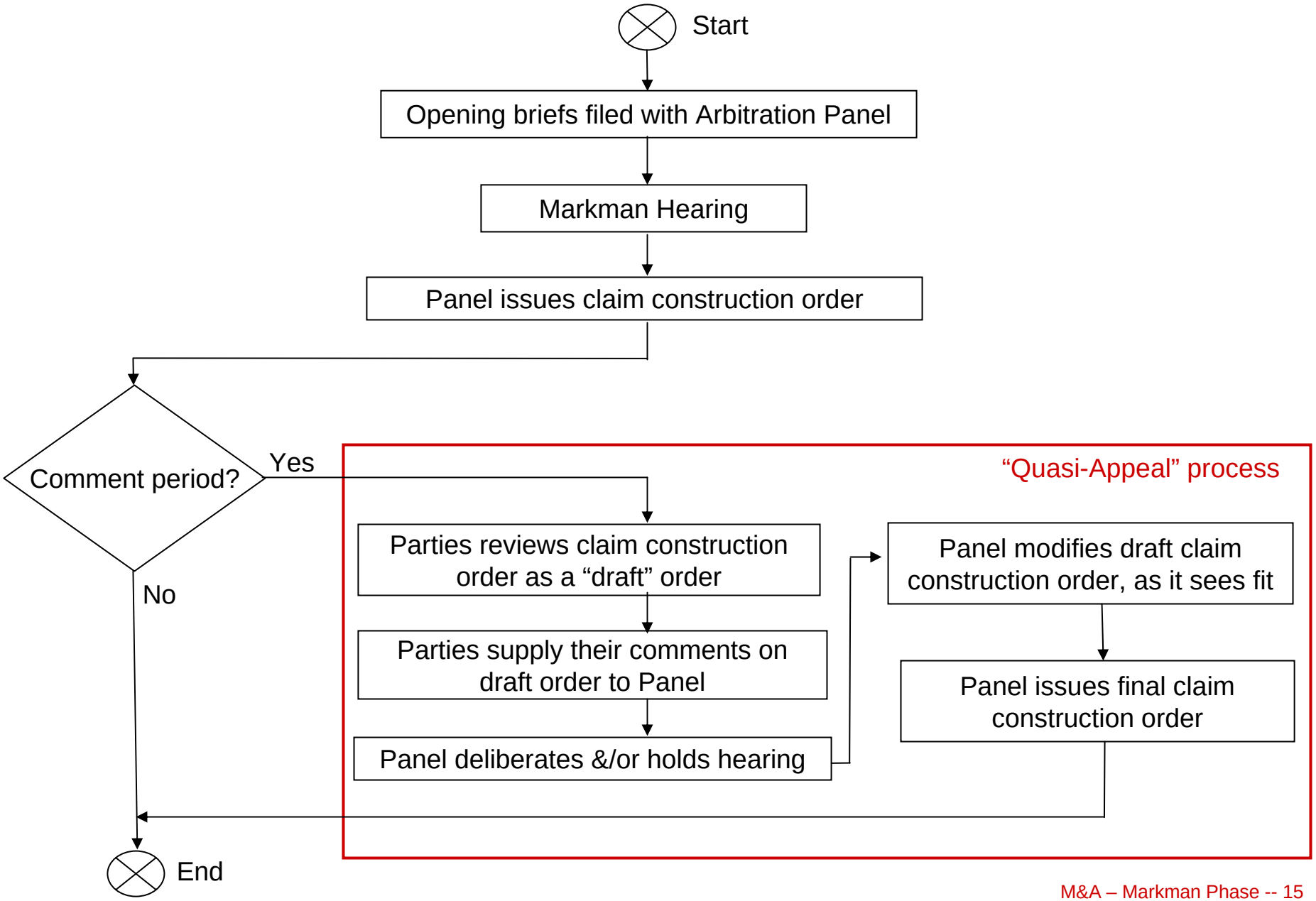
§ 135 – *Interferences*

(d) Parties to a patent interference ... may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9 ...

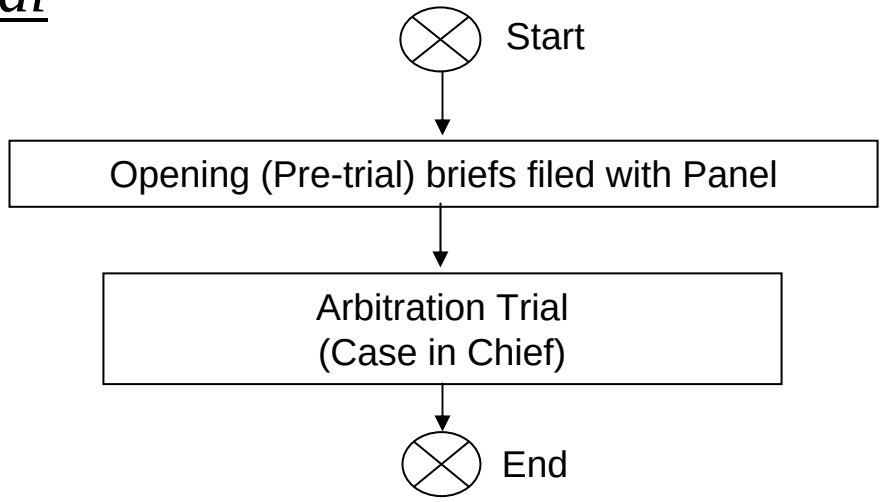
Basic Stages of a US Patent Arbitration



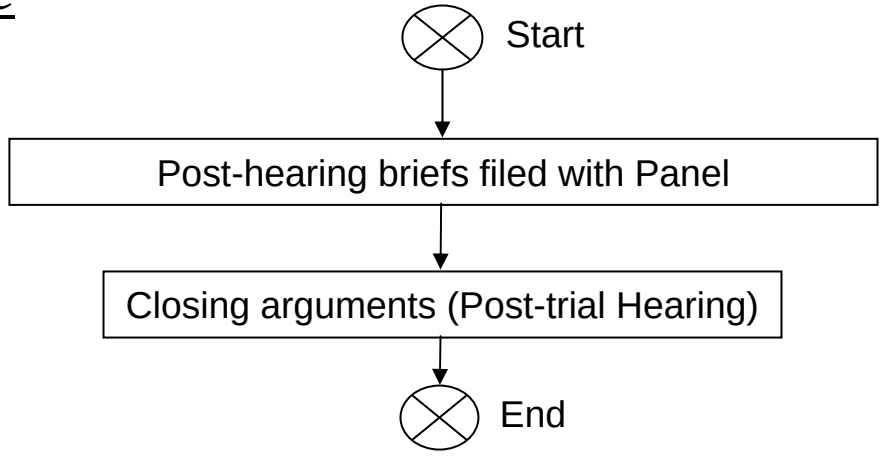
Markman Phase (Illustrative)



Arbitration Trial



Post-trial Phase



Arbitration Variants

- Ad hoc arbitration (no administering organization)
- Damage restricted arbitration
  - "Baseball" arbitration ("Hi/Lo" arbitration)
  - "Night Baseball" arbitration
- Issue restricted arbitration (certain issues only)
- Non-binding arbitration
  - Followed by mediation, if necessary
  - Mini-trial before high-level executives, possibly with neutral then serving as mediator, if necessary
- Med/Arb
- Arb/Med
- Other hybrid processes