

The Benefits of Mediation and Arbitration for Dispute Resolution in Intellectual Property Law

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We review the benefits of mediation and arbitration generally and how they can serve to improve your client's experience in resolving intellectual property disputes and lead to better outcomes.

I. Benefits of Mediation in Intellectual Property Cases

Mediation can provide substantial benefits for parties with intellectual property disputes and, indeed, is widely used in complex intellectual property matters to resolve disputes. Many of the courts with the heaviest dockets of intellectual property cases strongly encourage mediation. The Northern District of California, for example, submits all patent cases to its ADR program—which provides mediation as an ADR option. Judges in the Eastern District of Texas typically require that a mediation be included in the scheduling order for every patent case. The District of Delaware has a magistrate judge who devotes a substantial amount of her time to mediating disputes and who has particular expertise in mediating complex intellectual property disputes.

Mediation can be particularly valuable for intellectual property disputes because of the complexity of the applicable law. Also in patent disputes and many trade secret disputes, the presence of complex technological issues can make mediation very helpful to enable the parties to get to the heart of the dispute. If the parties think it would be useful, they can seek a mediator with knowledge of the relevant law, business field, or technology. The mediator can help to bring the parties back from the technical details of their case to examine the fundamental economic or relationship issues that drive the dispute, thus enabling a settlement beneficial to all parties.

In patent disputes, issues such as inventorship, obviousness, infringement, the doctrine of equivalents, conception, and corroboration can be very intricate both factually and legally. In trade secret disputes, issues such as the existence and scope of the alleged trade secrets and adequacy of protective measures and in trademark disputes, issues such as likelihood of confusion, dilution, and fame of a mark are complicated issues. Likewise, in copyright disputes, issues such as work made for hire, joint authorship, and fair use present difficult factual and legal scenarios. A mediator with expertise in the applicable law and business (and for patent and many trade secret disputes, in the relevant technology) can confidentially provide each party with a candid neutral assessment of the strengths and weaknesses of its case.

Because many intellectual property disputes end with a license, a mediator can help the parties fashion a rela-

tionship going forward that is suited specifically to the parties' needs. Likewise, many intellectual property disputes arise from continuing relationships among parties who had formerly worked together as licensor/licensee, joint venturers, or even co-inventors. Mediation may be useful in preserving these existing relationships.

With help of the mediator, the parties can plan how the mediation should proceed and modify the process during the mediation itself. This flexibility can be particularly useful in intellectual property disputes in which disputes often reach across national borders—while intellectual property rights, and the ability of courts to construe those rights, do not. Intellectual property litigation typically must be conducted country by country, which for a number of reasons (cost, time, possibility of inconsistent outcomes, etc.) is generally less desirable than a dispute resolution mechanism that requires just a single forum to provide a truly global solution (such as mediation).

Intellectual property disputes frequently involve extremely expensive and protracted discovery processes. During discovery, mediation may be used to facilitate efficient and cost-effective information exchange.¹ For example, in patent disputes, mediation may be used to resolve questions regarding experts, or the mediator may even help the parties formulate an entire discovery plan (interrogatories, depositions, production of documents, etc.). The mediator may help the parties target early discovery to the specific information the parties most need to engage in meaningful settlement discussions. Then, after an initial round of discovery, the mediator can start a mediation session to discuss possible settlement.

Similarly, in complex intellectual property disputes, a good mediator can help the parties reduce costs by narrowing the issues. Even if early mediation does not result in settlement and a suit goes forward, mediation may be helpful by better defining and/or narrowing the issues, which can reduce litigation expenses. For example, in a patent infringement dispute involving a number of patents each with multiple claims, the patentee may decide after a mediation session to go forward with litigating just one of the patents or just certain claims based upon the mediation. If the alleged infringer has strong invalidity and/or non-infringement arguments for some claims and shares those arguments with the mediator, the mediator can use that information to facilitate the patentee's making a more objective assessment than if the alleged infringer had presented the same information directly to the patentee. Likewise, the mediator can help the accused infringer avoid raising weak defenses.

The confidential nature of mediation can also be extraordinarily beneficial for parties to intellectual property disputes. The benefits to parties in trade secret disputes are clear. At the core of trade secret disputes are the existence and details of the alleged trade secrets. The very secret the litigants are trying to protect is at substantial risk of being compromised through litigation, which invariably involves placing the secret information in the hands not just of one's adversary, but also of the court and other parties such as expert witnesses and court reporters. Likewise, patent disputes often involve confidential technical and business information, not just of the alleged infringer but also of the patent owner. Moreover, patent disputes litigated in court can result in devastating defeat for patent holders should a patent be held invalid. A mediation can help the parties reach a business resolution without posing this risk to the patent holder.

Each of the following examples of the use of mediation for IP disputes demonstrates a number of the benefits discussed above.²

Patents

In one example, the owner of a number of patents wanted to sell its business related to the patents to a buyer, but a pending patent infringement lawsuit between the patent owner and a third party concerning one of the patents became an obstacle. The third party had staked its future on using technology that allegedly infringed one of the patents the patent owner wanted to sell. With the help of a mediator, the representatives of the patent owner and the third party were able to share information with one another, get to know and to understand one another, and craft a mutually satisfactory solution—allowing the patent owner to dispose of the patents. The parties were able to accommodate each other's interests and needs beyond what a judge could have done.³

In a second example, a licensee licensed technology from a licensor, which held patents on a compound for treating several medical disorders and methods of using it. The licensor granted the licensee an exclusive license to use the compound to treat only one disorder. After two years, the licensor asserted that the licensee was using the compound to treat an additional disorder not covered by the license. The licensor was reluctant to grant the licensee an exclusive field of use license for the second disorder. The mediator was able to help the parties reach a solution that involved renegotiating the license agreement to add a non-exclusive license for the second disorder and a right of first refusal for an exclusive license for it.

A manufacturer of wind turbine components entered into a settlement agreement in the form of a patent license with one of its competitors. The agreement contained a dispute resolution clause that provided for mediation and then arbitration if mediation failed. Three years later, the manufacturer requested mediation, alleging infringement of its U.S. patents and claiming royalty payments for the

licensed technology. The mediator held an initial session with the parties and allowed them a month to consider what they had learned during that session. Mediation then resumed and the parties held separate and joint caucus sessions with the mediator and exchanged proposals to discuss what changes would be made in the agreement, particularly with respect to royalties. At the end of the second day, the parties agreed on a term sheet containing the key points of a final agreement. This procedure allowed the parties to continue their business activities.

A start-up biotech company holding patent applications in several countries granted an option to a pharmaceutical company to take a license for platform technology. The pharmaceutical company exercised the option and negotiations commenced, but after two years the parties were unable to agree on terms. The parties then engaged a mediator who had considerable licensing experience, technical expertise, and had worked in-house for a pharmaceutical company and represented small biotech companies as outside counsel. During a one-day session, the mediator helped the parties identify key issues and more fully understand the applicable law. This enabled the parties to resume direct negotiations with enhanced prospects for reaching agreement.

Trademark

A North American company involved in a trademark dispute with two Italian companies and a Spanish company requested mediation with the goal of helping the parties avoid confusion and misappropriation of their trademarks and regulate future use of their marks. The parties selected an Italian mediator with a trademark practice. The mediator conducted an initial telephone conference with counsel, during which they scheduled the mediation session and agreed on the procedure. Two months later, the mediator met with the parties in a two-day session in Italy. The mediation was held in joint session with the exception of two brief caucuses. At the end of the second day, the parties, with the assistance of the mediator, were able to execute a settlement agreement covering all of the pending issues in dispute.

Copyright

One example of the use of mediation for copyright disputes involved an individual who recorded her lengthy interview of a famous person, who died soon afterwards. There were no writings concerning what use would be made of the recorded interview. The heirs challenged the right of the individual to use the interview for a book, film, etc. about the decedent on the basis that they owned the entire copyright because the decedent was, in their view, the sole author of the content of the interview (the decedent did virtually all of the talking during the interview and the conduct of the interview and its fixation had been done at the request/direction of the decedent). Through mediation, the parties were able to achieve a resolution that a court would not have been able to provide, to do so in a much shorter time and at much lower cost

than litigation would have entailed, and to avoid the emotional toll that cross-examination of the parties in court would have taken.

A copyright owner licensed certain artwork to a licensee, which combined that artwork with the licensee's own proprietary artwork. The licensee then licensed the combined artwork to a third party for use on the third party's packaging for consumer products, assuring the third party that the licensee had the right to grant the necessary rights from the copyright owner. The copyright owner later accused the third party of copyright infringement because the copyright owner's artwork was on the packaging. The parties differed significantly on how much profit was attributable to the alleged infringement, which led them to place very different values on the monetary aspect of any possible settlement. A mediator helped the parties more realistically assess the value of their cases and ultimately reach settlement.

"Choice—the opportunity to tailor procedures to business goals and prioritize—is the fundamental advantage of arbitration over litigation."⁴

II. Benefits of Arbitration in Intellectual Property Cases

Arbitration can be a particularly effective method of dispute resolution in intellectual property cases. Arbitration can reduce costs, which are often prohibitively high in intellectual property lawsuits. It can improve efficiency of resolution. It can render results for the parties that are simultaneously more narrowly tailored to the parties and less tied to any particular national jurisdiction. Each of these advantages is discussed in more detail below.

Arbitration gives parties to intellectual property disputes more flexibility regarding procedure than would be available in any national court. The parties are free to agree to almost any arbitration procedure that does not violate the law or public policy (e.g., in some jurisdictions, an arbitrator may not award punitive damages, even if the agreement to arbitrate calls for them). Thus, the parties' agreement can specify the number of arbitrators, the amount and timing of discovery (e.g., number of and/or time limits for depositions), the type of award (e.g., ranging from a bare-bones award without any discussion of the reasoning underlying the award to detailed findings of fact and conclusions of law), a time limit for making the award (e.g., within four months of the appointment of the arbitrator), the location of the hearing, the number of hearing days, whether any motions (e.g., for summary judgment) will be allowed, the process for selecting the arbitrator, the procedural rules (e.g., the International Institute for Conflict Prevention and Resolution's Non-Administered Arbitration Rules), and whether the arbitration is to be administered by an ADR provider (e.g., the American Arbitration Association) or is to be self-administered. In contrast, in litigation, the parties have little or no control.

The potential savings in attorneys' fees and other litigation expenses often available in arbitration is particularly significant in the intellectual property context because such costs are often very high in intellectual property cases. Cooperative parties can use arbitration to eliminate many of these costs. Even without full cooperation, an arbitrator may still be able to significantly reduce discovery and other costs. For example, an arbitrator can limit the number of depositions, ban requests for admission, allow only a small number of interrogatories (if any), etc., which will significantly reduce costs. Time-consuming and expensive motion practice, common in intellectual property litigation, is also less common in arbitration.

The ability to choose arbitrators with specific legal or technical expertise can be particularly useful in IP disputes. In patent and trade secret cases, the subject matter is often highly technical. Arbitration allows parties to select an arbitrator having subject matter expertise in the technology of the dispute and to avoid spending time and money attempting to educate a judge or jury with no guarantee the attempt will succeed. Similarly, patent and trademark disputes can often involve complicated questions regarding practice before the U.S. Patent and Trademark Office. An arbitrator with expertise in patent or trademark prosecution can eliminate uncertainty in such cases. A three-person arbitration panel provides an opportunity to have many areas of expertise represented if no one arbitrator can be found having all of the requisite expertise/experience. One of the authors of this paper has proposed a legislative change to allow replacement of the fact-finding role of district court trial judges with tribunals of expert arbitrators in civil actions against the U.S. Patent and Trademark Office for judicial review of adverse USP-TO decisions on patent applications involving complex technical fact issues.⁵

The private nature of arbitration can also provide advantages in intellectual property disputes. In court proceedings, protective orders can provide some level of security regarding confidential information, but a trial in court, particularly in the United States, is a public process. Many court filings are readily available from the court's file. In contrast, arbitration is private and the parties can keep the proceedings entirely confidential. The arbitrator and the provider (if any) are usually required by law and/or by the rules of the provider to maintain confidentiality. Confidentiality obligations (including with respect to documents and other evidence) are often self-imposed on the parties by agreement.⁶ Parties desiring to maintain confidentiality may opt to obtain a simple (bare bones) award and not a reasoned award because either party might go to court to confirm or vacate the award (in which case the award might become part of the public record).

The award of an arbitrator is final and binding on the parties and the grounds for court review of the award (during a proceeding to confirm or vacate it) are limited.⁷ This could be particularly useful in patent cases where

there are claim construction issues. Under *Markman v. Westview Instruments, Inc.*⁸ claim construction, the meaning of terms of a claim is a question of law. However, the Court of Appeals for the Federal Circuit does not consider claim construction determinations by district courts to be final or appropriate for interlocutory review. Therefore, when the Federal Circuit finally does review claim construction determinations, if it decides the trial court has erred, it often remands a case to the trial court for further proceedings, which may well involve a new trial on infringement and/or validity, thereby possibly delaying ultimate resolution by months (if not years) and costing the parties substantial additional sums. One of the authors of this paper has previously proposed arbitrating claim construction because such arbitral determinations would be final and unassailable, at least among the parties to the arbitration, except on narrow grounds, thereby significantly reducing the risk that the parties would have to retry infringement and validity issues because of a trial court's erroneous claim construction.⁹

Intellectual property disputes often involve parties from various countries, which can make arbitration preferable for purposes of enforcement of an award under the New York Convention. Moreover, many intellectual property rights, e.g., patents and trademarks, are national in nature. They must be separately acquired and enforced on a country-by-country basis. In contrast, intellectual property disputes often involve intellectual property cutting across national boundaries (inventions, trade secrets, works of authorship, etc. are not geographically limited) even if specific rights based upon that property are. Conducting intellectual property litigation country-by-country for a number of reasons, including cost, time, and possibility of inconsistent outcomes, may be less desirable than a dispute resolution mechanism, i.e., arbitration, that enables a single forum to provide a truly global solution for a set of parties.

In the trademark context, arbitration plays a special role. Domain name disputes are arbitrated under a policy established by ICANN (Internet Corporation for Assigned Names and Numbers), which is responsible for management of the generic top level domain names (".com," ".org," etc.). ICANN adopted the UDRP (Uniform Domain Name Dispute Resolution Policy) effective December 1, 1999. Various organizations, such as WIPO (World Intellectual Property Organization), have established procedures for neutrals to decide whether to order domain name registrars to cancel, transfer, or sustain the domain names of parties accused by complainants of "cybersquatting." These arbitrations are faster and less costly than traditional litigation, and the neutrals are knowledgeable in the area. Since 1999, thousands of UDRP disputes have been adjudicated by arbitration tribunals, involving the famous and the not-so-famous. For example, the complaints of actress Julia Roberts (*Julia Fiona Roberts v. Rus-*

sell Boyd, WIPO Case No. D2000-0210) and of the estate of singer Jimi Hendrix (*Experience Hendrix, L.L.C. v. Denny Hammerton*, WIPO Case No. D2000-0364) were sustained, and the domain names "juliaroberts.com" and "jimi-hendrix.com" were ordered to be transferred to the respective complainants; in contrast, the complaint of singer/actor Sting was not sustained (*Gordon Sumner, p/k/a Sting v. Michael Urvan*, WIPO Case No. D2000-0596).

Each of the following examples of the use of arbitration for IP disputes demonstrates a number of the benefits discussed above.¹⁰

Patent

In one example, a U.S. inventor held patents in several countries and had licensed them to a company based in Asia. The inventor and licensee disagreed on who should pay the annuities to keep the patents in force. After the Asian company terminated the license, the inventor filed a demand for arbitration, claiming damages and requesting a declaration that he was free to use the patents. The arbitrator, who was knowledgeable in patent and licensing law and sensitive to the cultural issues, was able to quickly render an award after the evidentiary exchange and a brief hearing.

Two companies involved in a software patent infringement dispute disagreed as to whether there was infringement and ultimately agreed to arbitrate the matter. The two companies had done business before the dispute arose and they wanted to continue to do so in the future. The parties needed a simple yes-no answer as soon as possible to a single question presented to the arbitration tribunal, namely, whether there was infringement. The parties selected three arbitrators who were knowledgeable about software and patent law. Through arbitration, the parties received their answer from people knowledgeable about the technology and the law far more quickly than they would have through traditional litigation, at far lower cost, and with complete confidentiality.

Trademark

A European company registered a trademark for consumer goods in several countries. An Asian company started to sell the same types of goods under a similar mark in those countries. After the European company accused it of infringement, the Asian company commenced administrative proceedings in several of the countries to cancel the trademark registrations. The parties then entered into a settlement agreement containing an arbitration clause. The agreement provided for each party to restrict its use of its mark to its part of the world. After the European company used its trademark at a trade show in Asia, the Asian company commenced arbitration, claiming violation of the settlement agreement. The Tribunal rendered its award within a few months of the close of the hearing, and, among other things, ordered the European company to refrain from using the trademark in Asia.

Copyright

The copyright holder and the accused infringer both manufactured computers. The copyright holder accused the accused infringer of infringing numerous copyrights on the copyright holder's operating system software, but the accused infringer claimed it had developed its software using only publicly available information about the copyright holder's operating system. After protracted negotiations, the parties entered into a settlement agreement under which the accused infringer made a lump sum payment to the copyright holder, agreed to pay future royalties, and agreed to respect the copyright holder's intellectual property rights. Under the agreement, any disputes would first go for resolution to a group of executives from both companies and any unresolved disputes would be arbitrated. The copyright holder eventually requested arbitration, saying the accused infringer had breached its promise to respect the copyright holder's intellectual property rights. The arbitrators, who were knowledgeable in the software and copyright fields, attended a multi-day seminar presented by the parties to educate them regarding systems software. The panel made numerous rulings that shortened the proceeding. For example, rather than their examining many tens of thousands of lines of computer code, the panel asked each party to designate a relatively smaller number of code segments that it believed proved its case (i.e., infringement, or non-infringement because of, e.g., independent creation, *scènes à faire*, etc.). The time from filing of the demand to issuance of the award was about two years, significantly less time than litigation would have taken. The complex award provided that: (a) the accused infringer would pay for past and future use of the copyright holder's intellectual property; (b) the accused infringer's system developers could examine the copyright holder's code being used up to a specified earlier date and prepare written system specifications based on that code, which specifications would then be given to the accused infringer's software developers to write their own system code, without any further communication between the system developers and the software developers (a modified "clean room" procedure); and (c) the panel retained jurisdiction to decide any further disputes. This proceeding demonstrates several of the advantages of arbitration, including the parties' control over the process, reduced cost, and ability to select knowledgeable arbitrators.

Trade Secret

A licensor exclusively licensed technology to a licensee, which at the time needed to use the technology to make a product for which it was seeking governmental marketing approval. The licensee had collected substantial data from the various product trials it had run. The license agreement specified that if the licensee terminated the license, the licensor could use the technology to make its own version of the product and that the licensee could have access to and rely on the data when it sought governmental marketing approval. The licensee terminated

the license but refused to allow the licensor to have access to or to use the data. Despite the complicated nature of the case, involving a number of days of hearing with substantial expert testimony and a lengthy post-hearing briefing schedule, the hearing was held only eight months after the demand was filed and the award was rendered less than four months later.

Endnotes

1. Mary Pat Thyng, "Mediation in Patent Cases—One Judge's Perspective," 997 PLI/Pat 296 (March 2010).
2. These examples are based on actual mediations and have been disguised for obvious reasons.
3. Thanks to David W. Plant, Esq. for suggesting this example.
4. Thomas J. Stipanowich, *Arbitration and Choice: Taking Charge of the "New Litigation,"* 7 DePaul Bus. & Comm. L.J. 3 (2009).
5. Charles E. Miller, "New Procedural Rights for IP Owners and the Promotion of Judicial Economy and Efficiency Through the Use of Arbitration in Civil Actions Against the USPTO," *IPO Daily News* (Sept. 24, 2007).
6. In the United States, the patentee, assignee, or licensee of a patent is supposed to notify the Director of the USPTO of any arbitration award concerning the patent's validity or its infringement and provide a copy of the award and certain other information, which are then entered in the prosecution record of the patent. 35 U.S.C. § 294(d). The award is unenforceable until such notice is received by the Director. 35 U.S.C. § 294(e). Even though the award may become part of the public record, the information it contains will likely be considerably less than the information a publicly available litigation record would contain, particularly if the award is a barebones award. Patent interferences may also be arbitrated, and notice of the award must be given to the Director or else the award is unenforceable. 35 U.S.C. § 135(d).
7. Under the Federal Arbitration Act ("FAA"), the four statutory grounds are (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; or (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. 9 U.S.C. § 10(a). Depending on the Federal Appellate Circuit, manifest disregard of the law is or is not a viable ground for vacating the award, but it too is a narrow ground. Broadly speaking, the grounds for vacating an award under state laws are similar to those in the FAA. Experienced arbitrators are not likely to provide any basis for vacating an award.
8. 517 U.S. 370 (1996).
9. Stephen P. Gilbert, *Arbitrating to Avoid the Markman Do-Over*, Dispute Resolution Journal, vol. 61, no. 3, pp. 60-65 (Aug.-Oct. 2006).
10. These examples are based on actual arbitrations and have been disguised for obvious reasons.

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