

Creative, Pre-Markman ADR Approach Offers Reliable Outcomes in Post-Bilski Patent World

BY WILLIAM F. McDONALD

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“I came to bury Caesar, not to praise him” (William Shakespeare, Julius Caesar, Act III, Scene ii, line 80)

Marc Antony's famous burial oration over the body of Julius Caesar comes to mind in reading the recent Federal Circuit decision *In Re Bernard L. Bilski and Rand A. Warsaw*, Serial No. 08/833,892.

The majority opinion by Chief Judge Michel, in particular, illustrates the tension that now exists in patent cases between the various United States District Courts, the United States Court of Appeals for the Federal Circuit, and finally, the United States Supreme Court. One might think the Supreme Court has the last word, and indeed it usually does. Speaking at a luncheon at the Georgetown University Law Center on April 1, 2008, Judge Gajarsa of the Federal Circuit commented: “The Supreme Court is telling us --look at patent law as one of many other areas of law and not make it so specialized”. Judge Michel's opinion in *Bilski* illustrates that may be more easily said than done. Judge Michel, by relying heavily on two U.S. Supreme Court rulings, *Parker vs. Flook*, 437 U.S.584(1978), and *Diamond vs. Diehr*, 450 U.S. 175 (1981), seems to be pointing out the very complexity of the technologies involved in the modern patent world makes the legal issues more specialized as well.

Craig Anderson, writing in the *Los Angeles Daily Journal*, vol. 121, No. 210, pp1 10, October 31, 2008, about *Bilski*, has suggested the Federal Circuit may be trying to force the Supreme Court, if it takes *Bilski* on appeal, to rethink its own decisions.

In the meantime, what can the patent practitioner do to make the results in patent litigation more reliable and perhaps a bit more accurate for clients? Although the various studies disagree in the percentages, all studies indicate the reversal rate of District Court decisions is significantly higher by the Federal Circuit than is the reversal rate of District Court decisions by the other Circuit Courts of Appeals. This may not be surprising given the Federal Circuit has a higher level of experience with both the legal and technological aspects of intellectual property. The highest level of reversal by the Federal Circuit is with respect to Markman rulings. Since the Federal Circuit does not give interlocutory review to Markman rulings, the entire process has an air of uncertainty at the trial level. The U.S. Supreme Court does not hear many patent cases. The outcome when the Supreme Court does hear a patent case is always uncertain. The whole process is lengthy and very expensive. To avoid this scenario, patent disputes parties can look to creative uses of alternative dispute resolution, especially before the Markman hearing.

The traditional forms of ADR in patent cases are various types of mediation and arbitration. This article, after a brief discussion of the traditional forms, shall discuss ways to more effectively use ADR in patent cases.

There are a number of District Court sponsored programs for mediation that typically utilize Magistrate Judges or law clerks as mediators. These programs emphasize process experience from the court perspective, not necessarily patent prosecution experience

before the PTO, or litigation experience from the perspective of the litigator. Because of some criticism of the narrow perspective of these court programs, some litigators use practicing intellectual property lawyers of varying levels of experience as mediators. Sometimes they are paid a fixed amount for their services, sometimes not. The amounts paid by the parties in the court-sponsored programs are usually relatively small. This can impact the amount of time the mediator devotes to a case.

The next and most varied group of alternatives lies in the private sector. These forms of alternative dispute resolution usually cost more than the court-sponsored programs. However, the costs are typically minimal in comparison with full-blown litigation, especially if the litigation is continued until all avenues of appellate review are exhausted. It is not unusual for the litigation expenses for each party in a patent dispute to exceed \$10,000,000.00.

In the private sector, the full panalopy of forms of mediation and arbitration are available. The parties are mediating or arbitrating by agreement, either because of a clause in a pre-existing contract between the parties or by agreement after the dispute arose. The parties can choose the mediator(s) or arbitrator(s), commonly referred to as a “neutral.” This can be a retired judge with extensive judicial experience succeeding a career as an intellectual property lawyer with experience both in prosecuting cases before the PTO and as an IP litigator. In other words, it is possible to have a neutral with both process and technology experience.

The issues in patent and other intellectual property disputes are more complicated than in other types of cases. In other forms of disputes such as torts or contracts, the issues usually are liability for some past act, and then if liability is found, the appropriate type and amount of damages. Intellectual property disputes then go on to address whether there shall be ongoing acts, and if so the appropriate financial exchange for such acts and/or the appropriate restrictions on such acts. The parties may want to continue with some form

of business relationship, which needs to be defined.

In all forms of mediation the mediator functions not as a decision maker but rather as a facilitator, helping the parties to reach a mutually satisfactory resolution of their dispute. This does mean the parties must enter the process with some willingness to compromise. Each of the parties should also define their objectives and goals, contemplating where they are willing to give, to be flexible, and where to stand firm.

The success of mediation, especially in the early stages of the litigation, before the Markman hearing, depends upon the degree of preparedness of the parties. If the parties have not thoroughly thought through their position, including an acceptable compromise, the case is not likely to settle at that point. Regardless, the foundation is being laid for the eventual settlement of the case.

Arbitration basically involves having all or part of the case being decided by a private judge or judges. The parties pay the arbitrator(s). The entire process can be considerably faster. Since the parties select the arbitrator(s), the decision maker can have both process experience and substantial patent experience, in other words, be a decision maker with expertise. This article shall not discuss the more esoteric forms of arbitration such as high-low, baseball, night baseball, and the like. These variations are typically used to determine damages but have little utility for determination of claim interpretation and construction, validity and infringement. These are the areas where early arbitration is particularly useful.

Arbitration can be either binding or non-binding. Non-binding means the litigation can and will continue if either party does not like the result. Many do not like non-binding arbitration for this reason. The feeling is the prevailing party has exposed its best case and the losing party, by refusing to accept the result, can go forward strengthening its case.

Binding arbitration, which is the most frequent form of arbitration used, also has its critics, especially in the intellectual property world. By agreeing to arbitrate, the parties are waiving their right to a jury trial. Jury trials have become increasingly popular in intellectual property cases. Most arbitration awards are what are called reasoned awards and do not contain formal findings of fact and conclusions of law. Limitations on the arbitrator's authority to decide an issue can be waived by the parties' submission of the issue to the arbitrator. Binding arbitration awards typically are not reviewable. Although the rule may be changing, the general rule still is that arbitration awards may not be attacked or set aside except for fraud, corruption, and the like.

It is true the parties are waiving their right to a jury trial by submitting the case to binding arbitration. However, this does mean the parties can select as the case decider an arbitrator with both the process experience as a judge and a strong background in patent law both as a litigator and as a patent prosecutor. A sounder, more rational decision can result.

An alternative, which some parties have found attractive, is to limit the arbitration issues to the Markman issues — claim construction and interpretation. This result is then submitted to the trial court as a stipulation. The matter may then proceed in the District Court with a jury trial if the parties so choose.

The parties agree in advance upon the form of the award. It is true the overwhelming preference is for reasoned awards, but if the parties agree they want formal findings of fact and conclusions of law, they can have them. In arbitration the parties agree upon the structure and set the rules. Most ADR organizations, such as JAMS, have proposed rule sets. Most parties use the suggested rules with some modifications.

The typical modification is to provide for more discovery. A strong arbitrator can help parties effectively manage the discovery process in order to make sure all sides are being held accountable within the framework of an equitable and fair process. The increase of E-discovery in IP disputes has heightened the need to select an arbitrator and arbitral institution with the sophistication and experience in handling such complex matters.

The parties do have to be careful to adhere to the agreed upon limits on the arbitrator's authority. Submission of issues to the arbitrator beyond the initially agreed upon limits rarely happens, however.

There are also ways to mitigate the lack of reviewability of arbitration awards. JAMS' Arbitration Rules provide for award review by a special appellate review panel, if the parties so agree. Such agreement must be reached when the rules of the arbitration procedure are agreed upon. A party cannot wait until the award of the arbitrator is made before deciding it wants an appellate review. Appellate review panels are typically tremendously under utilized.

The lack of reviewability can also be mitigated by having the case decided by a multi-arbitrator panel rather than by a single arbitrator. This does not give reviewability but increases the likelihood of a sound decision. The possibility of a single arbitrator going off on her or his own has been eliminated. This does increase the cost of the arbitration and can, since the schedules of multiple arbitrators must be accommodated, increase scheduling problems. Scheduling challenges are overcome by the use of full-time neutrals,

who don't have their own trial calendars with which to contend.

Typically a three-arbitrator panel is utilized. The panel can be chosen in a variety of ways. The parties may agree upon all three arbitrators. The parties may each choose an arbitrator, so-called party arbitrators. The parties then agree upon the third arbitrator. Or, the two party arbitrators can choose the third arbitrator. Whatever way is followed, the arbitrators can and should be chosen with care.

Some have said at least one of the arbitrators should not have a legal background but rather a background in the technical field. However, a lot of time can be spent explaining and getting the non-legal trained arbitrator to understand the legal ramifications of various technical aspects of the case. As a practical matter, given the technical backgrounds of most patent practitioners, especially those licensed to practice before the PTO, there is little need to utilize an arbitrator lacking legal experience.

The role of party arbitrators can be challenging. A party arbitrator has been chosen by one side only and there is usually an expectation by that party that the arbitrator so chosen will look out for the party's interests. This is in conflict with the purpose of an arbitration, which is for a neutral body to resolve a conflict for the parties. While they may start out with a party bias, most party arbitrators with legal backgrounds, lawyers or retired judges, do rise above that bias and do strive to reach the proper result. The best way to avoid any possible problems is to have all neutral arbitrators, all chosen by agreement of the parties.

There is one more way to mitigate the potential lack of appellate review. This is particularly useful for Markman rulings. The parties by stipulation can ask the District Court Judge to appoint the "arbitrator" they have chosen as a Special Master to conduct the Markman Hearing and recommend to the Court the proposed ruling on the Markman issues.

The parties have actually added an additional layer of review by this procedure. They can argue the Special Master's recommendation before the trial judge, and eventually before the Federal Circuit when the entire case is ripe for review. If the Special Master chosen has substantial background as a patent practitioner, both as a litigator and as a prosecutor before the PTO, as well as judicial experience, the whole Markman procedure has been strengthened. This, combined with the layer of review by the trial judge before the ruling gets to the Federal Circuit, at least creates the potential that the Markman ruling may have a more favorable reception by the Federal Circuit. 