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The Benefits of Mediation and/or Arbitration over Trial

BY JOHN M. DELEHANTY AND MURIEL M. LIBERTO

Patent litigation in federal court is one of the most costly and time-consuming forms of dispute resolution in the United States and abroad. Even after spending millions to bring a case through trial, the winning party runs a very high risk of reversal at the U.S. Court of Appeals for the Federal Circuit or its foreign counterpart. In almost every patent dispute, arbitration and/or mediation can provide a cheaper, faster, and better alternative, even where the issues are complex and the stakes are high.

A recent arbitration vividly illustrates this point. The patent licensing dispute involved multiple parties, multiple agreements, multiple patents, and issues of claim construction and infringement under the laws of both the United States and Europe. Hundreds of millions of dollars in royalty payments were disputed, and the parties disagreed on whether any royalty payments were due and, if due, how they should be calculated.

Adding to the complexity, one of the parties participated under protest because the arbitration clause was invoked by a third-party beneficiary who was not a signatory to the arbitration provision. However, a U.S. Court of Appeals for the Second Circuit precedent permits a nonsignatory to an arbitration provision to enforce that provision against a signatory "if the claims at issue are 'intertwined' with the agreement containing that provision." *Symphony Fabrics Corp. v. Knapel*, No. 07 Civ. 6606 (GEL), 2008 U.S. Dist. LEXIS 44588, at *13 (S.D.N.Y. June 2, 2008) (quoting *Choctaw Generation LP v. Am. Home Assurance Co.*, 271 F.3d 403, 406 (2d Cir. 2001)). Although the nonsignatory did not have a corporate relationship with the parties to the arbitration provision, before the arbitration commenced, a court held that the issues were sufficiently intertwined to permit enforcement of that provision by the nonsignatory against the objecting party.

The licensing agreement contained an infringement-based definition of net sales. This required a determination of the acts that infringed, under both U.S. and E.U. law, as a first step in determining what royalties were due. The parties disputed the meaning of key claim terms in the patents, making it necessary to resolve claim construction issues under both U.S. and E.U. law.

Should you wish to receive further information on this or any intellectual property issue, please contact any of the attorneys listed below, or the Mintz Levin attorney who ordinarily handles your legal affairs.

Contacts

Gene Feher
Editor-in-Chief
(617) 348-4946
GFeher@mintz.com

John M. Delehanty
(212) 692-6703
JMDelehanty@mintz.com

Muriel M. Liberto, Ph.D.
Esq.
(212) 692-6257
MLiberto@mintz.com

Members

Kevin N. Ainsworth
(212) 692-6745
KAinsworth@mintz.com

Dean G. Bostock
(617) 348-4421
DGBostock@mintz.com

Paul J. Cronin
(617) 348-1781
PCronin@mintz.com

Richard G. Gervase, Jr.
(212) 692-6755
RGervase@mintz.com

Marvin S. Gittes
(212) 692-6247
MGittes@mintz.com

Since the precise methodology for calculating royalties had not been agreed to, this issue also had to be resolved in the arbitration.

The parties produced over 450 exhibits, consisting of several thousand pages. Roughly a dozen witnesses were examined and cross-examined over four days. Testimony was heard from medical experts, accountants, marketing experts, business development experts, and European patent attorneys. Despite the complexity of this dispute, the volume of documents, and the number of witnesses, it was resolved in *less than four months* from the time the arbitrator was chosen until the final rulings were rendered.

Although the above case involved a preexisting contractual obligation to arbitrate, even where there is no arbitration clause, parties to a dispute concerning patent rights should consider arbitration as an alternative to litigation. Arbitration can effectively resolve even complicated issues in a fraction of the time and at a substantially lower cost than federal court litigation.

In addition, since the parties choose the arbitrator, they can specify a neutral who has the requisite experience in both the law and technology to skillfully and expeditiously resolve their issues. This ability to pick the neutral is especially advantageous given the highly specialized nature of patent law and the often technical nature of the issues being resolved.

Another advantage of arbitration over litigation is finality. Patent cases suffer from an unusually high rate of reversal upon appeal. This phenomenon is often the result of disagreements between trial courts and the Federal Circuit on issues of claim construction, which are reviewed *de novo*.

Arbitration awards are generally not subject to judicial review except in very limited circumstances, such as the absence of an arbitration agreement, arbitrators exceeding their powers, or instances of fraud or corruption. There is no *de novo* review of claim construction or matters of law and little chance to review an arbitrator's finding of facts.

Finally, unlike litigation, the arbitration process is confidential. Arbitrators and arbitration service providers, such as the International Institute for Conflict Prevention and Resolution (CPR), discussed below, are sworn to secrecy. And it is in the interests of the parties to agree to confidentiality, either predispute or postdispute.

However, unlike mediation, documents prepared in connection with arbitration are not necessarily protected from discovery by third parties in subsequent litigation. The Federal Circuit recently agreed to hear an interlocutory appeal of a discovery order to decide whether to extend the mediation privilege to arbitration. *Kimberly-Clark Worldwide, Inc. v. First Quality Baby Products, LLC*, No. 957, 2011 WL 63986, *1 (Fed. Cir. Jan. 10, 2011) (nonprecedential). If this privilege is extended, it would serve to make the arbitration process even more desirable as an alternative to litigation.

In view of the advantages in time, cost, and procedure, an alternative dispute resolution (ADR) clause should be considered in any licensing agreement involving intellectual property rights. Depending on the nature of the agreement, the ADR clause might also include a requirement for mediation prior to arbitration.

Mediation has many of the advantages of arbitration but is a less adversarial proceeding. Unlike an arbitrator, a mediator does not decide the merits.

John Giust
(858) 314-1572
JGiust@mintz.com

Geri L. Haight
(617) 348-1675
GLHaight@mintz.com

H. Joseph Hameline
(617) 348-1651
HJHameline@mintz.com

Paul J. Hayes
(617) 348-4944
PJHayes@mintz.com

A. Jason Mirabito
(617) 348-1805
JMirabito@mintz.com

Timur E. Slonim
(212) 692-6704
TSlonim@mintz.com

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Indeed, the mediator must be careful not to pick sides in the dispute. Instead, the role of the mediator is to understand each side's position and try to bring them together in a mutually beneficial resolution.

Well-drafted mediation and arbitration clauses should provide a strict timeline for the process and either establish specific ground rules for the presentation of arguments, the examination of witnesses, and the qualifications and powers of the neutral or incorporate the existing rules of ADR organizations, such as CPR (www.cpradr.org).

The ADR clause governing the arbitration mentioned above required that the hearing be held within one and two months of selection of the neutral. It also required each party to submit, a week in advance of the hearing, a list of witnesses, a proposed ruling and remedy on each issue to be resolved, and a brief in support of its proposed ruling and remedies (not to exceed 20 pages).

No discovery was permitted. The hearing was to be held on two consecutive days; each party was limited to five hours of hearing time. There was only one neutral, not a panel of three (which cut down substantially on costs and scheduling delays), and the neutral was required to be an attorney with at least 15 years of experience in patent law, trade secrets, and licensing. Sole discretion as to the admissibility of evidence was given to the neutral (with the exception of settlement negotiations or affidavits prepared for purposes of the ADR hearing). The clause also directed the Parties to submit their post-hearing briefs within 7 days following completion of the hearing (again, with page limits) and directed the neutral to rule within 14 days of the hearing's end.

The neutral was obligated to adopt the proposed ruling and remedy of one of the parties on each disputed issue. No written opinion or explanation of the basis of the ruling was permitted. The rulings of the neutral were binding, nonreviewable, and nonappealable. Claims to punitive, exemplary, or multiplied damages; claims to consequential damages; and claims to attorney's fees were waived.

Service providers, such as CPR, are available to assist parties in using ADR to resolve their disputes. CPR is an independent, nonprofit organization providing exemplary rules, protocols, and procedures, which reflect its experience in developing best practices in the field.

Qualified neutrals can be found through organizations, such as CPR, which will work with the parties to find the right neutral for their dispute. Once the neutral is selected, the parties pay only the neutral's normal hourly rate, unless otherwise agreed. Some service providers also charge administrative fees in connection with the proceeding, but others, such as CPR, do not.

Arbitration and mediation are attractive alternatives to litigation of patent disputes. Even where the parties are not under a preexisting obligation to do so, they should give serious consideration to using arbitration to resolve patent disputes in light of its efficiency, cost-savings, confidentiality, and finality.

Client Brief: The Benefits of Mediation and/or Arbitration over Trial

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