TAKE IT OUT OF COURT?
USING ALTERNATIVE DISPUTE RESOLUTION IN PATENT DISPUTES

By Debbi Mack

Time consuming, expensive, resource intensive and acrimonious—this can be a fair description of litigation. Motivated in part by cost and in part by the desire to achieve better, more enduring solutions, corporate America is turning increasingly to alternative dispute resolution.

This is true in the realm of intellectual property law, as well as other areas. In particular, patent cases can make attractive candidates for ADR due to the high cost of patent litigation as well as the high cost of losing, according to Robert T. Tobin, a partner with Kenyon & Kenyon in New York who practices IP law and has been involved with mediation for more than 15 years.

Alternative dispute resolution can include a variety of procedures, but the most prevalent forms are mediation and arbitration. Tobin first became interested in mediation when one of his cases settled in an unusual way.

His client sued another company, seeking damages based on trade-secret and patent-infringement claims. The lawsuit was well on its way to trial, but no one really wanted that, Tobin says. The parties met to discuss the situation and ended up settling, which is not a particularly unusual result. What made this case different, Tobin says, was that instead of damages, the plaintiff agreed to sell a certain product to the defendant. The plaintiff company received compensation through these sales, while the defendant company got a needed product without having to admit to any liability.

"What I found intriguing was the way we came to a business solution to the legal issues," Tobin says. "That's really what mediation does most of the time."

Mediation

Mediation is a proceeding in which the parties go before a neutral person, the mediator, and state their positions on a matter. The mediator then explores ways to bring them closer together and encourages them to resolve the conflict on their own. Any decision reached is one that is agreed upon by the parties, not one imposed by the mediator. Further, the mediator has substantial discretion as to how to handle the proceedings, which can involve meeting with the parties separately or together.

"It's a pretty fluid format," says Paul R. Juhasz, director of IPR Americas at Nokia Inc.

Juhasz has been involved in two IP lawsuits while at Nokia in which the court directed the parties to try mediation according to local rules.

One case was a large litigation involving a number of patents and

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big companies. The other was a smaller case in which Nokia alleged unfair competition claims. In each case, the mediation resulted in a settlement.

Juhasz believes that mediation can help "plant the seeds" for people to reach agreement.

"It forces the parties to distill the case to its more salient points," Juhasz says.

In addition to being able to more quickly identify the big issues in a case, he believes that mediation creates a more relaxed environment in which to work out problems, which can lead to less posturing. The parties also get the benefit of a neutral person's view on which arguments work and which do not.

Arbitration

Unlike mediation, arbitration is a more formal proceeding in which one or more neutral people hear each side of a dispute, then render a decision that can be either binding or non-binding per the parties' agreement.

With arbitration, you can probably reach a solution sooner and in a less formal manner than in litigation, Tobin says. Because arbitrators often have technical expertise, one does not have to worry about lack of tech savvy on the fact-finder's part, as with a jury trial. Further, the lack of formal rules of evidence allows more flexibility as to what the fact-finder can consider.

Arbitrator fees may offset cost savings, however. Some arbitrations may also require the same level of attorney preparation as a court appearance, Tobin says.

Lack of formality is not always viewed as a plus, either. Some practitioners look askance at the potential for arbitrators to consider evidence that has not been subjected to the safeguards of judicial evidence rules. Further, some cases may play better before a jury than a more technically oriented fact-finder.

ADR on the Rise in U.S. Corporations

Regardless of any drawbacks, U.S. companies are increasingly using ADR, according to a survey of the general counsel for the Fortune 1000 corporations released in 1998.

David B. Lipsky, a professor in the School of Industrial and Labor Relations at Cornell University and co-author of "The Appropriate Resolution of Corporate Disputes: A Report on the Growing Use of ADR by U.S. Corporations," in which the results of that survey were published, says that follow-up research reveals that the trend toward using ADR seems to be rising.

"There's no question that [the use of] ADR continues to grow," Lipsky says. He believes that more companies are making ADR part of the fabric of their corporate culture. Lipsky also contends that the value gained from ADR goes beyond cost and time savings to include informality, confidentiality and preservation of good business relations.

Mediation, in particular, seems to produce better outcomes. While 80 percent of corporate counsel surveyed report using arbitration and 88 percent say they used mediation, 63 percent identified mediation as their favorite method and only 18 percent preferred arbitration.

Tobin believes mediation may be preferable because arbitration is similar to litigation, in that the parties simply present their cases and a third party imposes a decision. Lipsky calls arbitration a "rights-based" process, while mediation, he says, is more "interest-based."

Only Suited for Some Cases

Deciding when to use ADR can still present tricky strategic questions, though.

Getting parties involved in the process up front is sometimes difficult, due to fears that early attempts at cooperation may be perceived as weakness. Also, some cases are not as amenable to ADR, particularly matters in which there is little or no room for compromise.

If a patent holder wants to exclude competitors from the market, for instance, ADR would probably not be preferable. If the desired result is to get licensing agreements from competitors, ADR is more appropriate.

Tobin emphasizes that ADR is not a panacea in every case, but is an option that should be explored.