



“Products of the Mind” Require Special Handling:

Arbitration Surpasses Litigation for Intellectual Property Disputes

A business’s competitive position, even its viability, can depend upon protecting its intellectual property (IP) assets—patents, copyrights, trademarks, trade secrets, and technical knowledge. Today’s IP disputes often involve multi jurisdictions and multi defendants and are more nuanced, covering topics intrinsic to new and fast-growing technologies. As the complexity swells, so do the costs.

And not just to the companies themselves: Dozens of studies have been conducted, similarly concluding that “patent litigation now imposes substantial costs, particularly on small and innovative firms, and that these costs have tended overall to reduce research and development, venture capital investment and firm startups.”¹

The Downside of Patent Litigation

In 2015, patent litigation (the number of cases filed in court) and the number of patents granted declined slightly—approximately 2%—from the year before. The 2014 Supreme Court decision in *Alice Corp. v. CLS Bank* that made defending and procuring a software patent more difficult almost certainly contributed to the decrease.²

Four significant items have increased, however, in taking a patent case to court:

- Median time to trial—approximately 2.5 years³
- Median damages
- Fee shifting
- More jury decisions

As stated in the *PWC Patent Litigation 2016 Report*: “Patent litigation activity may have slowed, but median damages are going up, which means companies are feeling more pressure than ever to get their litigation strategy right.”

The 2014 Supreme Court decisions in *Octane Fitness v. ICON Health & Fitness* and *Highmark v. Allcare HealthMgmt. Sys.* made fee shifting—or awards of attorneys’ fees and costs to the successful party in litigation—more accessible, potentially causing great financial harm to the losing party. “Practitioners should always keep in mind that the district court which presided over the case now has broad, and largely unreviewable, discretion to shift fees under section 285 in the interests of compensation and deterrence.”⁴

The 2016 U.S. Supreme Court’s *Halo* decision lowered the bar for finding willful infringement, with the result of a plunge in summary judgment orders⁵—and the likelihood of more patent owners pursuing enhanced damages claims and more decisions by juries, who most likely do not have extensive experience in patent cases.

An 1892 Attack on Patent Litigation

In his summation of the 1892 patent-infringement case *Ungar v. Sugg*, Lord Esher MR blasted the use of litigation in such cases: “A man had better have his patent infringed, or have anything happen to him in this world, short of losing all his family by influenza, than have a dispute about a patent. His patent is swallowed up, and he is ruined.

Whose fault is it? It is really not the fault of the law: it is the fault of the mode of conducting the law in a patent case. That is what causes all this mischief.”



Arbitration: A Better Option for IP Cases

Because IP dispute outcomes can play such an important role in some companies' success, businesses are reexamining how these disputes can be handled most effectively. Ninety-four percent of Chief IP counsel in the life sciences industries believe that the IP area is viewed as a "strategic partner of the business."⁶

Arbitration is a more effective process in the resolution of IP cases. However, due to common myths concerning arbitration, the majority of these cases are brought to the more costly federal court system.

Debunking 7 Myths about Arbitration and IP Cases

Myth #1: Arbitration is effectively used only in licensing disputes, not in patent infringement cases.

In addition to its large caseload of alleged breaches of licensing agreements, the American Arbitration Association (AAA®) has experienced an acceleration of post-dispute submission of patent-infringement cases, with good reason:

- **Arbitral decisions have limited appeals.**

A majority of patent-damage jury or bench decisions are overturned, adjusted, or remanded back, adding to the uncertainty and cost associated with patent litigation. Eighty percent of district court decisions are appealed; 53% of appealed decisions are modified in some regard;⁷ and 30+% are reversed.⁸

- **Delays due to case reversals or remand in court cannot occur in arbitration.**

In the context of patent litigation, one of the parties often files a Motion for Summary Judgment following the district court's opinion on claim interpretation. If the court grants the motion, an appeal usually follows. If the United States Court of Appeals for the Federal Circuit either reverses the district court or remands the case for further proceedings, the parties will incur significant costs and lost time.

- **Resolving IP disputes by arbitration greatly reduces the potential implications of an adverse decision.**

In litigation, a company may lose the particular case as well as the underlying patent, copyright, or trademark. In arbitration, an adverse IP decision is restricted solely to a particular claimant. Arbitration can be less adversarial than litigation in U.S. courts, can remain confidential, and does not create binding precedents.

- **Arbitration can be used in patent claim construction.**

Arbitration also can be used for claim construction in conjunction with litigation; doing so can prevent appellate review and a retrial.

Myth #2: Mediation is the only appropriate process to resolve IP disputes.

The AAA has had very positive experience with arbitration of IP disputes: of the 121 IP cases filed with the AAA in 2016,* 108—or 89%—chose arbitration as opposed to 12—or 10%—that selected mediation. Of those 121 cases that began as arbitration cases, 3 cases have settled through mediation to date.

Mediation is an alternative dispute resolution (ADR) method most effective when the parties have had or anticipate an ongoing business relationship, which facilitates negotiation and settlement. In most patent or

*All AAA data herein is based on IP cases filed with the AAA in 2016, excluding filings from claims programs.



trademark infringement disputes, the alleged infringer does not have a past—and is not likely to have a future—business relationship with the owner of the intellectual property at issue. In this case, the more formal structure of arbitration is often the more effective ADR process.

Myth #3: IP cases are best decided in a court setting.

The American Intellectual Property Law Association (AIPLA) policy statement asserts that “for many disputes there are more effective methods of resolution than litigation.”

The U.S. Supreme Court’s 1996 landmark decision *Markman v. Westview Instruments, Inc.*, 517 U.S.370 held that district court judges are to decide the meaning of the words used in patent claims, including the scope of the patent. However, many judges do not have the necessary understanding of the patent at issue and its underlying technology, as well as of current IP law, trade customs, and industry norms.

Prime benefits of arbitration over litigation:

- Parties can select an arbitrator with precise subject matter expertise. For example, the AAA maintains stringently selected domestic and international IP panels in patents, copyrights, trademarks, and technology.
- Confidentiality of trade secrets, patents, and development work is preserved, as opposed to the public nature of trials.
- International arbitration awards are much more highly enforceable than court decisions as a result of the 1958 New York Convention for the Enforcement of Foreign Arbitral Awards, notwithstanding the Hague Convention on Choice of Court Agreements that seeks to do the same for court decisions. (Enforcement under the New York Convention is greatly enhanced if the arbitration has been administered by a recognized third-party administrative body in accordance with well-established rules and procedures.)
- Juries often can be influenced by factors other than just the facts—i.e., the personality of the trial lawyer or an inherent bias toward the smaller of the litigants. And juries have decided 75% of identified cases in the last five years (excluding Abbreviated New Drug Application (ANDA-related) litigation, which usually is tried by the bench.¹⁰

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In a 1903 IP decision, Justice Oliver Wendell Holmes Jr. declared: “It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations.”⁹ His pronouncement well applies to disputes in all areas of intellectual property and makes one of the most compelling arguments for using arbitration to settle IP disputes.

Myth #4: The arbitration process is impossible to control, with runaway costs and unaddressed substantive and procedural issues.

Parties and their attorneys can exercise far more control over the arbitration process than that of litigation because they can tailor it to meet their needs. Unlike litigation, the flexibility of arbitration encourages parties to narrow the scope of the issues to be addressed, thus restricting potential outcomes. An expert arbitrator will interpret the patent efficiently and can impose early limits on discovery.

- A well-drafted, pre-dispute clause in an IP agreement or a carefully devised post-dispute stipulation allows the parties control over numerous issues including but not limited to: extent of discovery; recovery of attorneys’ fees; choice of procedural or substantive law; hearing locale; access to interim



relief; arbitrator selection methods, number, and qualifications; time constraints; issues to be addressed during the hearing(s); protective orders; consolidation; availability of motion practice; limitations on remedies; and issuance of a reasoned award.

- The *AAA Supplementary Rules for the Resolution of Patent Disputes* is a set of patent-specific arbitration procedures, created through the collaboration of the AAA and the National Patent Advisory Council, which consists of patent litigators, in-house patent counsel, and patent practitioners.

Myth #5: Arbitration is no quicker or less expensive than litigation.

Data from the World Intellectual Property Organization (WIPO) survey in March 2013 showed that an average of 60+% in time and 55% in costs were saved by using arbitration instead of litigation to resolve technology disputes.

Arbitration's greatly reduced discovery schedule, along with reduced motion practice and limited access to appeal, result in sizeable time—and therefore cost—savings. In addition, the flexibility of scheduling an arbitration often means that a case can be heard long before a court date would be available.

The median time of a patent case going to trial has increased over the last decade to approximately 2.5 years.

Compare that with the following statistics:

- In 2016, the median number of days from filing to award with the AAA was 405—little over one year—including large IP cases with claims and counterclaims exceeding \$1,000,000.
- 85% of the IP cases filed with the AAA during 2016 required six or fewer days of hearing time.

Myth #6: Arbitration does not permit interim injunctive relief.

Arbitration has joined litigation in offering interim relief to parties in commercial cases. Emergency relief—for example, from an alleged copyright or patent infringement or a misappropriated trade secret—can be critical to the IP owner's business, and a preliminary injunction must be expedited to prevent further damage.

A party to arbitration can obtain emergency relief in the following ways:

- The AAA's *Commercial Arbitration Rules* authorize the arbitrator to award "injunctive relief and measures for the protection or conservation of property."
- The AAA's *Emergency Measures of Protection* provide for an emergency arbitrator to be appointed from a special AAA panel within one business day and a hearing schedule established within two days thereafter. Upon a showing of a likelihood of irreparable harm, the emergency arbitrator may award emergency relief.
- A few decisions under the Federal Arbitration Act (FAA) have held that parties to an arbitration agreement have waived their right to seek any judicial relief, or conversely, that seeking judicial relief operates as a waiver of arbitrability. In response, the AAA's Commercial Rules include a provision authorizing parties to seek interim judicial relief without waiving their right to arbitrate.



Myth #7: Size matters—arbitration is not appropriate for very large or very small cases.

Of 110 IP arbitration cases filed with the AAA during 2016, 16% of the cases had claims and counterclaims up to \$75,000. Another 37% had claims and counterclaims of at least \$500,000. Parties in 21% of the cases did not disclose their monetary claim or were seeking non-monetary relief in the form of a declaratory decision; the rest of the claims fell in between.

Footnotes

1 James Bessen and Michael J. Meurer, “A Third of the Economy is at Stake—and Patent Trolls Are to Blame,” washingtonpost.com, (Nov. 18, 2015)

2 *2016 Patent Litigation Study*, www.pwc.com, (May 2016)

3 *Ibid.*

4 John Kenneth Felter and Vincent Ling, “Practice Guide to Section 285 ‘Exceptional Case’ Findings,” apps.americanbar.org, (Jan. 11, 2016)

5 Patrick M. Arenz and William E. Manske, “The Halo Effect: More Jury Trials on Willfulness,” www.law360.com, (Aug. 1, 2016)

6 *Life Sciences IP Report*, www.consero.com, (January 2017)

7 *2016 Patent Litigation Study*, *op. cit*

8 *Global Business IP and Technology Blog*, www.iptechblog.com, (January 20, 2015)

9 Adam Liptak. “Sports Artist Sued for Mixing Crimson and Tide.” *New York Times* (November 12, 2006): 1, 25.

10 PWC, *op. cit*