Kluwer Arbitration Blog

Recent Event: The Case for Arbitration of Patent Disputes

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The arbitration of patent disputes is on the rise. This is not only because patent litigation has been subject to criticism on multiple grounds, but also because arbitration offers several distinct advantages.

In an effort to further explore this growth field, the Georgetown International Arbitration Society hosted a panel on the subject as a part of Georgetown Law's annual International Arbitration Month. The panel was comprised of Pete Michaelson (Independent Arbitrator and Mediator), Emily O'Brien (Corporate Counsel at Google), and Bill Raich (Partner at Finnegan and Adjunct Professor at George Mason School of Law). It was moderated by Hugh Carlson (Associate at Three Crowns LLP and Adjunct Professor at Georgetown Law School).

This post highlights four key advantages of patent arbitration based on the panel discussion and recent publications on the subject:

First, specialist adjudicators can be particularly important in the resolution of complex technical disputes. One report asserts that 52% of all first-instance decisions in patent disputes are modified in some way on appeal. Specifically, an empirical analysis found that the U.S. Court of Appeals for the Federal Circuit, a specialized court with the jurisdiction to hear nation-wide patent appeals, reverses 30% to 50% of all patent claim construction decisions of the U.S. district courts. A contributing factor is that in a large number of patent disputes, judges or juries who lack the expertise to deal with intricate and technical patent cases often reach conclusions that are susceptible to successful challenges. These statistics point toward the fact that patent litigation at the trial level is often not going to be determinative of the dispute between the parties. This is in contrast to the finality of arbitration when subject-matter expertise informs the selection of adjudicators, as it can in arbitration, resolution of complex patent disputes becomes more manageable.

Second, patent arbitration can be a cost-effective alternative to patent litigation, which can be expensive and inefficient. The litigation of patent disputes can cost between $2 and $5 million. About half of these costs arise out of discovery and related motion practice. In contrast, in arbitration discovery is typically more limited. The parties can customize the procedure to limit or expand the extent of discovery, based on the nature of the dispute, and thereby save on time and cost. The scope of discovery that is permitted in arbitration will be guided by the need to arrive at a just, speedy, and cost-effective resolution of the dispute. A successful patent arbitration requires a strong arbitrator to limit discovery as far as practicable. Allowing extensive discovery of

documents, as is the practice in patent litigation, will wipe out many of the time and cost advantages associated with patent arbitration. Arbitration has been criticized on account of rising costs and lack of speed. Further, patent arbitration can be as expensive as patent litigation. But, in these cases the heightened costs are due, at least partially, to the parties' tendency to make the proceedings mirror litigation or engage in obstructive tactics. A strong tribunal president can serve an important role in reducing costs by resisting dilatory tactics and ensuring that the proceedings are conducted in a time- and cost-efficient manner.

Third, litigation is more likely than arbitration to result in strained relations between disputing parties. This result may be especially undesirable in the patent context because the commercial relationships between disputing parties may extend beyond the dispute. Arbitration can be less adversarial than litigation in U.S. courts, can remain confidential, and does not create binding precedents—all of which may better preserve disputing parties' commercial relationships and ensure that future deals are not put at risk.

And ***fourth***, emergency arbitration may now be of greater importance as a result of the U.S. Supreme Court's decision in *eBay, Inc. v. MercExchange*, which may cause more difficulty in obtaining preliminary injunctions in U.S. courts. An example of a successful use of emergency arbitration in a patent dispute is the emergency award rendered in *Max Sound Corporation v. VSL Communications Ltd*. In that case, the AAA-appointed arbitrator issued an injunction against the defendants, which restrained them from "licensing, selling, assigning or transferring, any of the technology, patents, or intellectual property" pursuant to the underlying contract between the parties.

Injunctions can be decisive in patent disputes as they restrain the defendant from infringing the patent in issue during the pendency of the proceedings. They can be of vital importance in maintaining market share, preventing price erosion, and preempting a loss of customer goodwill, among other things. An incidental advantage of obtaining a preliminary injunction in a patent dispute is that it may coax the parties to rationally settle their disputes without engaging in further legal proceedings. The utility of patent arbitration is evidenced by its increasing popularity in high-stakes disputes. One recent example is *Nokia Corporation v. Samsung Electronics Co.*, in which an ICC tribunal awarded an estimated US$218 million annually to Nokia in a dispute arising from a licensing agreement for the use of Nokia's phone patents. Similarly, in *Tessera Inc. v. Amkor Technologies Inc*., an ICC tribunal awarded Tessera approximately $125 million for Amkor's breach of the patent license agreement between the parties. Further, an ICC Tribunal in *InterDigital v. Samsung Technologies* awarded InterDigital $134 million in a dispute concerning a licensing agreement between the parties. On the other hand, emergency arbitrations are not without risk. Parties have less (if any) input in the selection of the emergency arbitrator, and in particularly complex patent disputes a condensed emergency proceeding may not be the best way forward.

In conclusion, as patent arbitration continues to gain visibility with parties owning or using patents, we expect that more scholarship and precedent will guide its development. The panel proved to be timely and was met with enthusiasm from the audience, which included law students entering the field, as well as professors and professionals engaged in the resolution of patent disputes.

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