

# ADR Gives Parties Control Of Process

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*Well drafted provisions lets parties provide for expertise in decision making, efficiency of process*

After long negotiations the parties have finally reached agreement on the terms of a license of a particular patent. However, since the license is in effect, the parties may not be able to agree as to whether a particular product manufactured by the licensee is covered by the license agreement the parties have successfully negotiated. After attempting to resolve the disagreement amicably the licensee may feel that it has no alternative but to bring a lawsuit in order to enforce its rights under the license. Such a lawsuit takes on a life of its own.

The rules of litigation in state and federal courts are not tailored to the resolution of a particular dispute, but to the resolution of virtually all civil disputes. What started out as a simple border dispute, rapidly escalates to all out nuclear war.

When the licensee files suit for breach of the license agreement, the licensor raises every possible defense. The licensor's patent is invalid for obviousness, the licensor has committed fraud on the patent office, the licensor's claim should be barred under the doctrine of life savings estoppel, as well as the licensor's assertion that the product in question does not infringe the claims of the licensor's patent. If the licensee is feeling especially aggressive, it might bring antitrust counterclaims.

With the campaign thus well launched, armies of lawyers will begin exhaustive document and deposition discovery, leaving no stone unturned in their zeal to ultimately prevail. Many years and hundreds of thousands of dollars later, following a lengthy jury trial,

during which the jury is completely over its head and hopelessly confused, and after the exhaustion of every appeal, one or the other party has "won," and the dispute at issue has been finally resolved. However, the relations between the two parties have been severely damaged, perhaps irreparably, even when begun as an honest disagreement between business associates.

This need not happen. The parties to a license agreement can provide in that agreement (at the time a dispute arises) for the arbitration of that dispute. One of the hallmarks of arbitration is that it permits the parties in their agreement to define specifically what issues they wish the arbitrator to decide, the qualifications that the arbitrator or arbitrators should possess, and the procedures that the arbitrator is to follow in resolving the dispute.

The parties can agree to severely limit discovery and can even agree to eliminate discovery entirely following the hearing, of the matter the arbitrator will render an award, within a time limit the parties can establish, and except in exceptional circumstances, such as where one of the parties has been denied due process or where the arbitrators have exceeded the authority granted thereby the parties, the award is final and binding and not subject to appeal.

The parties can craft all of the procedural rules by which their dispute is to be resolved, can adapt procedural rules promulgated by an official institution, for example the Patent Arbitration Rules of the American Arbitration Association, or a combination of the above by incorporating and modifying institutional rules. Institutional rules generally provide for their modification by the agreement of the parties.

Most institutional rules are silent regarding the extent of discovery available to the parties. However, in the United States, state and federal law frequently provide that no or only limited discovery is available in conjunction with arbitration. In e.g., Cal. Code Civ. Proc. §§ 1280.15 and 1280.1, *Etalapa v. Hollings*, 321 N.E. 2d 77 (Ill. Ct. App. 1984), such laws govern where the arbitration is held in a particular state, where a state's procedural law has been chosen by the parties as the governing procedural law, or where diversity of parties applies. See generally, *Derouby Gaining Scopey Claims' Part of U.S. Discovery*, the *Recorder*, Aug. 22, 1993, at 5, col. 1. However, in all events, the parties can agree to more extensive or more limited discovery than state or federal law will otherwise permit. For example, the parties can agree that only limited document discovery will be permitted, or that limited document discovery plus three depositions will be allowed, or that the only deposition discovery permitted will be that of designated experts. Such agreed upon limitations greatly reduce the time and expense involved in resolving the matter in dispute.

## ◆ Agree on Procedures ◆

The parties can also agree on procedures which will prevent unfair surprise and reduce the time required to conduct the hearing. For example, all experts and other proposed witnesses can be required to submit declarations setting forth in detail their direct testimony a sufficient time in advance of the hearing to permit the other side to prepare its cross-examination. Ex-

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parts can be required to submit in advance any written reports reports or details of experiments conducted so as to enable the other side to analyze and repeat such reports and experiments. The parties can also agree on unsworn, stipulated facts in order to reduce the time required during the hearing to establish by evidence facts on which the parties do not disagree.

Special qualifications to be possessed by the arbitrator can be specified in the parties' agreement. Indeed, an individual or specific individuals can be designated as the arbitrator(s) in the parties' license agreement. This later can prove troublesome, however, where at the time the designator the individual(s) designated is unavailable because of prior commitments or health issues.

More common is the provision that the arbitrator(s) shall possess certain qualifications or belong to an identified group of individuals. For example, the parties might provide that the arbitrator(s) be experienced in intelligent modern technology or have acted as counsel in patent litigation involving interrelated antibodies, or that the arbitrator(s) be a member of the American Bar Association's Patent, Trademark and Copyright Law Section or a member of the Alternative Dispute Resolution Committee of the Licensing Executive Society (USA & Canada).

The licensor or licensors may wish to shape certain provisions of the agreement to fit its individual requirements. From the point of view of the licensee, there is absolutely no advantage to arbitrating

the validity of the patent. The licensee has nothing to gain from such a determination. While it may be necessary to determine that the licensee's product infringes the licensor's patent, the degree to which this is spelled out in the arbitration award can and should be controlled from the licensee's point of view.

The findings of the arbitral tribunal can be the basis for collateral estoppel to potential future litigation between the parties. As an example, if the arbitrator determines in their award that the licensee's product infringes claim 2 of the licensor's patent, but does not infringe claims 1, 3, or 4, it is a subsequent declaratory judgment action brought by the licensee against the licensor's patent, the licensee need only establish that claim 2 of the licensor's patent is invalid or otherwise unenforceable, as the licensee would already be collaterally estopped from relitigating claims 1, 3, and 4 against the licensor's product.

The licensee can avoid such a situation by carefully defining the "product" in the licensing agreement. For example, the definition of a "product" within the meaning of the licensing agreement might include "any product that infringes any one or more of the independent claims of the licensor." Thus, the issue to be submitted to the arbitrator is whether the licensee's product constitutes a product within the meaning of the license agreement, and it is unnecessary to specify which claims or claims that the licensee's product infringes or

does not infringe, so long as the licensee's product infringes anyone of the independent claims.

Conversely, the licensee may wish to include the validity of the licensor's patent among the issues that are subject to arbitration. This allows the licensee to defend on the basis of invalidity as well as non-infringement. Moreover, the licensee may wish to have the infringement of every claim determined and pronounced in the arbitrator's award. In the view of the licensee, the arbitrator should be empowered to determine "which claims or claims, if any, are infringed by the disputed product, and which claims or claims of the licensed patent are not infringed by the licensed product." This would not only set the stage for a declaratory judgment action such as that outlined above, but more importantly would serve to specifically identify those claims it would be necessary to litigate around in order to produce a non-infringing product not covered by the licensing agreement.

The above are only some of the many ways in which the parties may tailor their arbitration to fit their particular needs and only a few of the strategic issues in which the interests of the licensor and licensee might diverge. Expedient arbitration counsel can fashion a provision that provides its expertise in decision making, efficiency of the process, and preservation of strategic advantage. In all events, the parties can control the process, its costs, and its expense to a far greater extent than they can control court litigation.