Overlooked Negotiating Tools

Arbitration and binding mini-trial have advantages over litigation in solving disputes

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It appears that many attorneys are not considering all the factors that determine whether arbitration or litigation provides the best negotiating posture in an infringement or licensing matter.

The use of arbitration mediation, the mini-trial and litigation should be viewed as negotiating tools to achieve the client's goals in resolving a dispute.

Where all forms of voluntary negotiation and non-binding mediation, mini-trials and abbreviated jury trials have failed to produce settlement, one must evaluate the circumstances in order to recommend a binding mini-trial, arbitration or litigation. Although the binding mini-trial has the advantage over arbitration of greater involvement by the principals and a more informal environment for admitting evidence and pursuing settlement opportunities, both forums are quite similar from a negotiating point of view.

For purposes of convenience, this article will discuss when and how to use arbitration in comparison with litigation, but it should be understood that the considerations applying to arbitration also apply to binding minitrials.

In a survey the author conducted involving about 150 attorneys throughout the country, it was found that:

1. For the situation where the patentee has detected infringers, one-fifth of all attorneys would recommend to their employer or client that the infringer be asked to arbitrate rather than litigate the issue of infringement and one-sixth of all attorneys said they would do the same for the issue of validity.

2. In the situation where an agreement is being drafted for execution with a licensee, one-third of all attorneys indicated they routinely insert an arbitration clause on the issues of infringement and validity.

It would appear from the survey that attorneys have not yet thought of or are uncomfortable with the idea of asking an infringer to submit to arbitration when there has never been any dealing with that infringer before. It also is possible that as many as two-thirds of all attorneys are not using arbitration in licensing agreements and that as many as one-third of all attorneys are using arbitration indiscriminately when circumstances might actually dictate the litigation route.

First of all, pro-arbitration attorneys recommend it to clients and employers because it costs much less than litigation. However, this reason only applies to the party that cannot afford litigation. The company with large resources that can afford a $300,000 counsel fee should not voluntarily put itself on the same bargaining level as a smaller firm it is in a dispute with. It only makes sense to use the cost of litigation as bargaining leverage to force a settlement on terms favorable to the party that can litigate the matter to death without worrying about the cash flow.

Quicker Award

Second, pro-arbitration attorneys say that the award will be rendered much quicker than in litigation. That's fine for the patentee that wants an infringer to cease and desist. It's also fine for the party that cannot afford a protracted litigation. However, the infringer or licensee may want to drag out the dispute for as long as possible in litigation to delay possible business discontinuance. Further, if the infringer or the licensee has greater financial resources than the patentee, it makes sense to drag out the dispute for as many years as possible to drain the patentee to the point where the patentee is willing to settle on more favorable terms than would be granted in an award by an arbitrator.

Pro-arbitration attorneys rightly claim that arbitration preserves goodwill and avoids antagonism and adversity associated with litigation. However, this advantage is absent where the parties are terminating their relationship or the patentee and infringer never had one.

Arbitration also has the advantage of admitting testimony and other forms of evidence that a court of law might find inadmissible. It is also private, affording a protection for trade secrets and confidential business information. Arbitration is also advantageous because the decision will be based upon the arbitrator's expert knowledge and experience in the field of the subject matter and type of dispute, thereby assuring a fair decision based on a good understanding of the facts and issues and sound judgment. However, these benefits of arbitration are sometimes far outweighted by considerations of negotiation strategy.

For instance, if patent validity or infringement is questionable, why take a chance with an arbitration expert who will know exactly how weak the patent is and how dubious infringement is? It makes sense to take one's chances with a judge inexperienced in the technical and legal aspects involved. If the infringer is much bigger than the patentee or an entire industry has copied the patent, a jury trial would be much more beneficial than arbitration because of the sympathy and the deep pocket doctrine that can be played to the hilt. Furthermore, if

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the infringer has to make complicated arguments, such as combining a number of technical references to show obviousness, in order to invalidate the patent, this works to the benefit of the patentee in a jury trial, but not in arbitration.

Contingency

Of course, if the patentee does not have a large enough war chest for litigation with a jury trial, arbitration may still be necessary unless a litigation firm can be obtained on a contingency basis. On the other hand, if patent validity is strong and infringement appears clear, the patentee may wish to arbitrate these issues and then submit the finding that the patent is valid and infringed in a court of law for the jury to award damages to take advantage of the deep pocket doctrine or to avoid the fear that the arbitration judge will strike a compromise or not grant sufficient compensation.

There are situations where arbitration should be used, but the other party will not submit to the scope of arbitration desired. For instance, the patentee should not arbitrate if the other party to the dispute refuses to submit to an arbitration clause that permits a temporary restraining order or preliminary injunction.

Although AAA Patent Arbitration Rule 43 provides for specific performance and injunctive relief to terminate infringement and any other remedy or relief the arbitrator deems just and equitable, the arbitrator may be reluctant to take such drastic action prior to a full hearing on the merits in the absence of a specific provision in the arbitration clause permitting such action.

Another example is that the licensee or infringer should not submit to arbitration if the patentee does not agree to arbitration award modification upon a subsequent court holding of invalidity of the patent. Also, if a patentee has already licensed firms or is negotiating with infringers, the patentee may fear risking court invalidity in one case affecting all licensees and infringers.

Since arbitration is private between the parties and has no effect on a third party, it may make sense for the licensee or infringer not to arbitrate, but rather to increase the stakes for the patentee by forcing the patentee to litigate and risk invalidity affecting a great deal more income than with the one party that has refused arbitration. In the situation where the patentee does not want an unfavorable court ruling to create a precedent, the alleged infringer may shrewdly refuse to arbitrate. This can force the patentee into a settlement favorable to the infringer that holds out for litigation to resolve the dispute.