

Dispute Resolution in IP & IT Transactions

Presented to
Mastering IP & IT Transactions
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P. Bradley Limpert

Partner

Cameron MacKendrick LLP

150 York St, Suite 410

Toronto, ON M5H 3S5

brad@cameronmackendrick.com

(416) 364-1700 Ext.236

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My Background

- LLB (U of T) – Dean's List – 1995
- B. Eng (Eng. Physics), M.A.Sc. (Electrical & Biomedical Engineering)
- Patent and Trade-mark Agent
- Author: *Technology Contracting: Law, Precedents and Commentary* – Thomson Carswell

Representative Activities

- Dispute Resolution: IP Infringement and validity, inventorship, licensing and IT disputes including:
 - Co-counsel in \$20 million dollar infringement/account of profits in a patent case
 - Successful resolution of copyright, patent, trade secret and contract disputes:
 - In Canada
 - Internationally
- Advising on, and resolving, co-inventorship disputes
- Representing clients in disputes involving trade secrets, confidential information, and domain names
- Advising clients on rights under IP and IT contracts

Goals for the Workshop

- Consider some Key Factors and Concepts Affecting Dispute Resolution
- Discuss Dispute Resolution Clauses
- Provide Perspectives on Managing and Evaluating Disputes

Agenda

1. Lecture
 - Types of Disputes
 - Perspectives on Disputes
 - Key Factors in Dispute Resolution Clauses
2. Small Groups
 - Escalation Clauses
 - Dispute Resolution
 - Control of Third Party Litigation
3. Lecture
 - Issues in: International Dispute Resolution
 - Hints & Tips for Managing Litigation
 - Thoughts on Settlement

Types of Disputes

Typical Licensing Disputes

- Payment of Royalties
 - Royalty base
 - Validity of rights
 - Scope of Activities covered under License
- Scope of Rights
 - Exclusivity
 - Improvements
- Rights to terminate
- Non-Performance (of minimum performance obligations)

Typical IT Disputes

- Non-Performance/Scope of Project
- Exclusivity
- Rights to Commercialize
- Rights to Terminate

Perspectives on Disputes

- Why do IT Projects Fail?
- Developer's Perspective
- What makes IT disputes difficult?
- Perspectives on Licensing Disputes?
- Is this a dispute-prone contract?
- Initial Evaluation of Dispute
- Judge/Arbitrator Perspectives

Why Do Projects Fail?

- Project not defined well (inadequate specifications / requirements or fail to specify who is responsible)
- Developer has no obligation to complete project
- Continually changing scope or requirements
- Lack of Expertise (customer and/or developer)
- Integration Problems (combining technology/ activities of multiple sources)
- No alternative to current developer

Why Do Projects Fail?

(Cont.d)

- Developer charging too little
- Developer insolvency
- Difficult data conversion
- Risky or new technology
- Locked into proprietary (uncommon) development tools

Why Do Projects Fail?

(Cont.d)

- Perhaps the question isn't whether the Project will fail, but how badly it will fail.
 -and whether the agreement reasonably allocates risk and consequences of failure
 - And provides meaningful warnings and remedies

Vendor' s/Developer' s Interest

- Serve other customers in the industry
- Be paid in accordance with scope of responsibilities and risks assumed
- Not be stuck with indeterminate obligations
- Make a profit

One Key Approach

- Specify the requirements
- Oblige Developer to build something satisfying requirements
- Test to determine if obligations met
- Compensation based on Developer meeting obligations

What Makes IT Disputes Hard?

- Hard to establish what was promised
- Hard to establish what was done
- Moving target – waiver – estoppel
- Very little case law
- But providers often want to make it right
- Parties often want to continue a relationship

Perspectives on Licensing Disputes

- Licensees don't like to pay royalties
- Is there a Risk of Permanent Injunction?
- Infringement can be very profitable
- Infringer's internal return on capital (profits of infringement) may far exceed legal costs and pre-judgment interest
- Does the litigation itself affect competitor behaviour (regardless or until there's an outcome)?
- Validity of Rights may be uncertain
- Infringement of Rights may be uncertain

Is this a Dispute-Prone Contract?

1. Don't assume words and phrases are well understood
 - Would your grandmother understand what the word or phrase means?
 - I can always find an expert who will assert a different meaning
 - e.g., “Licensor has good title to the Licensed Patents...”
2. Is there one (and only one) clear and reasonable meaning?
 - A large cause of disputes are words and phrases where reasonable people could interpret them differently
 - Even the word “reasonable” has different interpretations
 - e.g., “sole” vs. “exclusive”
 - Some lawyers intentionally draft words/phrases so that they have two or more divergent meanings

Is this a Dispute-Prone Contract?

(Cont.d)

3. Is it clear who has an obligation to do what?
 - e.g., “\$100K will be spent on commercialization”
4. Some words and phrases will likely be given little or no meaning
 - e.g., “Licensee will use reasonable commercial efforts to bring the technology to market”
 - e.g., “Licensor and Licensee will negotiate in good faith if...”
5. A vague word or phrase probably has a nuisance value of at least \$50-100K
 - e.g., “Licensee will materially comply with these performance standards”
6. For most obligations, specific performance is not available

Some Other Tips on Reading an Agreement

- Make sure that the sentences have an intelligible meaning
 - Plug definitions into the provisions they are used in
- Be careful if you are relying on an extreme or unusual interpretation
- Be aware of the underlying legal doctrine

Initial Evaluation of Dispute

- How simple is it to prove the underlying facts?
- How susceptible are you to “minor or moderate” breaches?
- What self-help is in the agreement?
 - e.g., ability to convert a license to non-exclusive?
- Is this friendly and simple vs. exhaustive and clear agreement?
 - Can you rely on the quality of the relationship?
 - Is the agreement a framework for ongoing negotiations?
- What's it worth? / How will dispute affect reputation?
- What are the long-term implications of ignoring the problem?

Judge/Arbitrator Perspective on Dispute

- Probably does not understand any jargon or industry standards
- Does not have any pre-conceived idea of who is right and who is wrong (i.e., no one is wearing a white hat or black hat)
- Wants to resolve the issue in the quickest, simplest way
- Will not, as a rule, “re-write” the agreement
- Will listen to any reasonable argument
 - But will not be annoyed by crazy or silly arguments
- Does not want any half-truths
- Will give very little credence to the “intent” of the parties not found in the words of the contract

Key Factors in Dispute Resolutions

- Will you have the information or evidence you need?
- Will you need access to motions and discovery?

Access to Information or Evidence

- In some disputes, the parties may readily have required information to prove liability and remedies.
- Distribution of information may be assymetric.

Goals of Motions

- Provide you with information (factual and legal) to permit you to establish or defend your causes of action and remedies
 - Prepare you for the next steps and ultimately trial and appeal
 - Provide you a proper basis upon which to rationally settle the matter

Goals of Motions

(Cont' d)

- Impose cost and delay or the threat of cost or delay
 - The Court certainly doesn't sanction or condone this, but in some circumstances this appears to be, at least, a secondary goal of a party

Goals of Motions

(Cont' d)

- Prevent fishing expeditions and pursuit of irrelevant matters
 - Summary Judgment Motions
 - Motions to Strike

Goals of Motions

(Cont.d)

- Help maintain the status quo or the meaningfulness of court remedies
 - Security for Costs
 - Protective (Confidentiality) orders
 - Interim and interlocutory injunctions

Goals of Motions

(Cont.d)

- Provide tactical and strategic benefits to your client
 - E.g., Which evidence stays in or out?
 - Which causes of action can be pursued?
 - Who are proper parties?

Your approach to motions is a Critical Success Factor in Litigation

Small Groups

- Escalation Clause

Small Groups

- Dispute Resolution Clause

Small Groups

- Control of Third Party Disputes

Issues in International Dispute Resolution

- Increased Cost & Complexity
- What is the Dispute Resolution Mechanism?
- Substantive vs. Procedural Rules
- Language of Dispute

Different ADR Rules and Policies have Very Different Approaches to:

- Definition of Dispute
- Arbitrator's willingness to provide “motion-like” processes
- Discoveries/Production of Documents
- Willingness to Hear *Viva Voce* Evidence
- Rights of Appeal

Hints & Tips for Litigation

1. Try to Avoid Litigation
 - Invest in properly prepared contracts
 - Invest in IP searches
 - Invest in good applications and prosecution
2. Dot the I's and cross the T's
 - Are there are proper agreements in place with relevant parties?
 - A grievance does not equal a dispute
 - Is there a paper trail?
3. Call a good experienced lawyer when there is the possibility of a dispute:
 - Be clear about budget and acceptable risks
 - Your counsel should bring more to the table than aggression and lack of civility

Hints & Tips for Litigation (Cont.d)

4. Don't be afraid to sue
 - If you are afraid, don't tell anyone!
5. Invest in early understanding of your case
6. Learn about the process of litigation
7. Be patient
8. Get a frank assessment from Counsel on:
 - The strongest and weakest aspects of the case
 - What your best/most likely/worst outcomes are likely to be

Thoughts on Settlement

What Impedes Settlement?

- Emotionally-engaged clients
- Uncertainty on Key Facts/Law
 - Do the parties know what a reasonable settlement would be?
- Lawyers
 - Lack of knowledge
 - Principal/agent problems

Thoughts on Settlement

- What Impedes Settlement? (Cont.d)
 - Value of Dispute too close to cost of litigation
 - Uncertainty about commitment of a party to litigation

What Promotes Settlement?

- Fear, Uncertainty, Doubt (This may also impede settlement)
- Better understanding of case
 - Value
 - Strengths and Weaknesses
- Unwillingness to incur further costs
- Desire for a creative outcome
- Getting a reasonable settlement offer
- Sending the right messages

Questions?

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T h a n k s !

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